Political Pamphlet—XI.

RAILWAY PROBLEMS

BY

"ECONOMY"

Servants of India Society,
Poona

POONA:
PRINTED AND PUBLISHED AT THE ARYABHUSHAN PRESS, POONA
BY ANANT VINAYAK PATVARDHAN.

1924.

Price Annas Twelve

PREFACE.

THE articles collected in this pamphlet are a continuation of those published in February last year, in the "Servants of India Society Pamphlet" No. 8 with the title "RAILWAYS AND THE BUDGET". They are written by the same author, "Economy," and were contributed to the columns of the *Servant of India* from time to time. The problems relating to the management and finance of Indian Railways are of such vast importance to the public in India, that the service which "Economy" has rendered by discussing and elucidating them in the columns of the *Servant of India* deserves to be gratefully acknowledged. We are publishing the present Pamphlet for the convenience of the general reader, who finds it difficult to follow the discussion of complicated questions, carried on in a weekly paper, at intervals of time and who is sure to welcome the articles brought together. Railway management is a live issue in India, and it is hoped that the facts and arguments adduced by "Economy" and the conclusions presented by him will prove instructive to the reading public and will make an appeal to the mind of the students of the subject. An Editorial article from the '*Servant of India*' is given as an Appendix, as it was thought that it would be a good supplement to the articles by 'Economy' published in this pamphlet.

1st September 1924. PUBLISHER.

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HOW THE WIND IS BLOWING.

IT is nearly fourteen months since the Report of the Railway Committee of 1920-21 was published in India and the Government are still considering the most important of the recommendations of that Committee, viz. those in connection with the future management of Indian railways. The delay that has already taken place has caused considerable apprehension and suggests the probability of the Government coming to a decision, so far as they are concerned, otherwise than in consonance with the declared Indian opinion. There are at least four other indications which tend to confirm the apprehension. The Committee at great expense of time, labour and money collected a large volume of evidence, both in England and in India, from no less than 169 witnesses representing a variety of interests, and it was on the basis of the material containe in this evidence that the Committee made their recommendations. One would have thought that the material which sufficed the Committee would have enabled the Government to come to a final decision in the matter. But it appears from the letter of the Bengal Chamber of Commerce, which was published in the newspapers some months ago, that the Government have been calling for further views from apparently the very bodies who have already had an opportunity of placing their full views before the

Committee. The result can only be a repetition in a varied form of what must already have accumulated in the archives of the Government of India during the last 10 years of discussion. The publication of the Government letter which called for a lengthy reply from the Chamber would have helped towards a clearer understanding of the circumstances which led to the reference.

The second indication which shows which way the decision of Government will tend is the anxiety of the Railway Board (a body conveniently treated as separate from the Government of India in this matter) to redress the balance of alleged one-sided advocacy by newspapers of State management by the issue *via* the Publicity Bureau of a leaflet setting out the arguments in favour of company management. An enumeration side by side in the same leaflet of the arguments in favour of State management would certainly not have detracted from the dignity which should attach to documents issuing under the *aegis* of a Government. As it is, the leaflet is a collection of untested and unsubstantiated assertions and mere propaganda.

The third indication is that the Government did not go up to the Legislature with any proposals in the matter during the last Simla session, although there was plenty of time to do so after the views of the Central Advisory Council had been ascertained. It is hardly likely that Government would have referred the question to the Council without having made up, even tentatively, their minds in one direction or the other, and the only inference that can be drawn is that official opinion did not coincide with

that of the non-official majority, who were in favour of State management.

The fourth indication is the secret and hasty creation behind the back of the Legislative Assembly of the appointment of a Chief Commissioner for Indian Railways in part fulfilment of the recommendation of the Acworth Committee with regard to the machinery of Government control, as also the selection made for that office and the decision to constitute him as the sole adviser of Government in matters of railway policy. In reply to a question put by Mr. Manmohandas Ramji in the Legislative Assembly on 22nd September, 1921, in connection with the report of the Acworth Committee, Government repeated their undertaking that, as far as practicable, steps would be taken to ensure that no action, administrative or legislative, would be taken on reports of Commissions or Committees appointed by the Secretary of State or the Government of India until an opportunity had been given by the Government to the Indian Legislature to express its opinion. The creation of the appointment most decidedly constitutes administrative action on the Acworth Committee's report and in so far as the appointment was created without the Legislature being consulted it constitutes a departure from the promise made only two weeks earlier when the Government were probably already in correspondence with the Secretary of State for India. There is already with the Government of India a body of official advisers who have expressed themselves as opposed to State management. The appointment to the newly created post of a man who has also expressed himself as being against State management and who is now the

final official adviser must necessarily result in strengthening the official view against State management. When the time comes the Government of India will no doubt in their usual manner warn the Legislature against setting aside a proposal made on the advice of an expert selected by them. Admitting that the incumbent of the office had no such prepossession, the appointment would have engendered greater confidence in impartiality if Government had made the selection after settling their policy in regard to the best form of management of Indian Railways, and then entrusted to the holder of the appointment the sole function of advising them in carrying out the final policy decided upon by Government and the Legislature.

There is enough in what has been said so far to show the great danger of the possibility of the Government placing before the Legislative Assembly proposals otherwise than in accordance with the declared wishes of the Indian public. It is, therefore, necessary that our legistlators should forearm themselves against a contingency which after all may not be so remote either in time or in probability. An official resolution has recently been tabled in the name of the Honourable Mr. Innes who will move that the proposals of the Railway Finance Committee in regard to the separation of the railway from the general finance be accepted. It will be remembered that the Railway Finance Committe came to the conclusion that separation of Railway Finance in the sense understood by the Acworth Committee was not, at present at any rate, a practical proposition and suggested that the consideration of the question should

be postponed for three years when conditions might become more normal and financial equilibrium might be re-established. The Legislative Assembly, before whom the recommendation was placed for acceptance on the 27th March 1922 in the form of an official resolution, decided to postpone its consideration till the September session. According to this decision the matter should have been brought up for re-consideration in September 1922 and it is not quite understood why this was not done. In any case there are indications in the report of the debates which took place on the subject in March last that a large body of members are inclined to take an immediate decision, one way or the other, once for all. The question is too complicated to be adequately discussed, much less properly solved, on the floor of the House. Paragraph 7 of the Railway Finance Committee's Report shews a few of the many and varied considerations which enter into a proper solution of the question. Further, the Acworth Committee in paragraph 228 of their report state :—

"We think it is necessary here to draw special attention to the *caveat* which we have to enter. It is not State management as it has hitherto existed in India, whose functions we recommend to be so greatly extended. In earlier chapters of this Report the Committee have pointed out the failure and drawbacks of the existing system of control of Indian railways whether considered from the executive and administrative or from the financial point of view. To the Government Departments concerned, as at present constituted and administered, we should hesitate to entrust new responsibilities, in respect either of State or company managed railways. Our recommendation as to State management must therefore be read as coupled with and conditioned on the adoption-at least substantially, and in main outline-of the recommendations which we have made with respect to financial and administrative reforms."

Some people hold that, according to this paragraph, a rejection of the proposal to separate the railway from the general finance involves *ipso facto* a rejection of the recommendation regarding State management, while others hold that such an interpretation is untenable. This introduces another factor into a question already bristling with considerations of great complexity, in so far as it will be necessary to examnine the exact degree of interdependence, i. e., if any such really does exist, between the three reforms. In order that this may be done, all the three proposed reforms must be considered together. In these circumstances it would be a serious mistake to take a permanent decision without first asking a Committee with the necessary qualifications to consider the matter fully with a view to making a deliberate recommendation either to reject or to adopt the proposal of the Acworth Committee in this behalf If a hasty decision comes to be taken by the Legislative Assembly without a previous reference to a small compact body and if that decision turns out to be against the proposal, it might greatly hamper the settlement of the question of the future management of railways in accordance with Indian opinion. It is therefore necessary that members who are in favour of State management should be on their guard against the introduction in the discussion of the question of the final rejection or adoption of the Acworth Committee's proposal regarding the separation of railway from general finance. (January 11, 1923.)

FISCAL AUTONOMY FOR RAILWAYS.

I

THE railways of India in which Government have a financial interest may be divided broadly into the following classes:—

1. Railways owned and worked by the State.
2. Railways owned by the States, but worked by Companies.
3. Railways owned by Indian States, District Boards, private Companies, etc., but worked by the State along with its own Railways, or, by Companies along with State-owned railways.
4. Railways owned by Indian States, District Boards, private Companies and worked by themselves or by their own independent agencies.

Railways falling under the first two classes are supplied with funds from the State treasury whether for capital requirements or for working expenses; those falling under the third class are also supplied with funds from the State treasury, but only for working expenses; while in the case of the last-named class although the owners supply all the funds for both capital and revenue purposes, the State has a contingent liability for rebate or guaranteed interest. Funds required for working expenses and in discharge of the liability for rebate or guaranteed interest are found out of the revenue receipts of the country including the revenue receipts from the railway. Capital funds are provided either from surplus revenues of the State, or from loans forming part of the public Debt of India or from debentures or deben-

ture stock raised by the working Companies backed by the guarantee of the Secretary of the State for India. Borrrowing is the principal method employed for raising capital for railway expenditure. The sums which can be borrowed in any given year are governed by the changing conditions of the investment market here and in London, by the necessity of avoiding any undue depreciation of the price of Government stock by excessive demands on the market and its consequent injurious effect on the credit of the country and in the case of sterling borrowings by the consideration that any rapid increase in sterling liabilities might, in certain eventualities, prove a danger in connection with the exchange question. The capital funds thus raised have no relation to the actual requirements of the railways at the moment and in consequence these latter have to be curtailed or expanded to suit the amounts which can be made available. The complaint has always been that the funds are inadequate.

Capital expenditure on railways is frequently so closely connected with expenditure on revenue account that curtailment or expansion of the provision of capital funds directly affects the amount which can be spent on revenue account. Renewals of items of railway equipment with others of the same type fall to be paid for entirely out of revenue funds. When, however, such items are renewed with others of improved or stronger type, the case is different. Revenue funds are reasonable to the extent necesssry to replace or renew an item with another of the same type, while capital funds are responsible for the portion representing the improvement. It is obvious that no work of renewal involving a substantial element of

improvement can be undertaken without simultaneous provision of capital as well as of revenue funds required therefor and that curtailment or expansion of the provision of capital funds for renewals necessitates a smaller or larger provision of revenue funds. The works of improvement which can be undertaken in a year are dependent on the size of the capital funds which in its turn is determined by and dependent on, not the actual requirements of the railways but the financial exigencies of the Government at the moment. It follows, therefore, that the influence of the evils attributed or attributable to the system of providing funds for capital works on railways extends also to revenue expenditure. The principal disadvantages attributed to the system of financing capital works on railways are:—

(1) That the monies remaining unspent at the end of the year lapse to the Treasury and are not certain of returning to the railways during the following year;

(2) that the supply of funds is inadequate; and

(3) that the supply varies irregularly up and down from year to year.

We are no supporters of the system of "lapse" in regard to railway business, but it does strike us that far more fuss is made about the system than it can bear. The evils ascribed to it are more imaginary than real, more theoretical than practical. The system merely "assumes the concern goes out of business on each 31st March and recommences *de novo* on the 1st April." There appears to be no reason why this mere assumption should hamper railway business any more than, say, an assumption tomorrow by a

group of the most eminent scientists that the whole world goes into dissolution every night and comes into existence again in the same form the next morning, should exercise any upsetting or hampering influenc on men's affairs. The real question is whether during the long course of orthodox railway finance the Railway Department has, under normal conditions, failed to get in any year an amount equal to or, greater than the amount of the so-called lapse during the preceding year. Let history give a reply. It will be observed from the statement in paragraph 42 at page 256 of Volume IV of the report of the Indian Railway Committee of 1920-21 that except during 1916-17 (a war year) the grants have always been in excess of the lapses during the preceding year. Normally speaking, therefore, in actual practice the amount which theoretically lapses as remaining unspent on 31st March does come back to the railways on the following morning. The question of 'lapse' was fully discussed by the Committee on Indian Railway Finance and Administration of 1907–08 in paragraph 34 *et seq.* of its report and the Committee rightly came to the conclusion that the objections taken to the system were largely due to misconception. Paragraph 55 of the report of the Indian Railway Committee of 1920-21 contains an attempt to demolish this conclusion on the basis of the argument that not only in theory but also in actual experience the amount of lapse may not be re-allotted to railways at all and that even if and when it is so reallotted, particular railways which had contributed a share of the total lapse may not get its share back. It has already been shewn that normally the amount of lapse *does* come back to the railway. As regards

the contention that the share of the total lapse contributed by a particular railway not going to that particular railway but to another railway, the fault, if any, is with those who distribute the funds, namely the Railway Board. If any particular railway does not get its lapsed grant back during the following year, we must presume that the Railway Board consider that relatively to the needs of the other railways, those of this particular railway must give away, and that had sufficient funds been forthcoming it would have had its share back. This leads us on to the complaint of the inadequacy of funds for capital works on railways on the whole. (February 28, 1924.)

II.

THE complaint about inadequacy of funds has reference to the amounts required for carrying out additional works and works involving betterment on existing railways to deal satisfactorily with the traffic offering and for the construction of new lines or extensions of existing railways. The term "inadequacy" can only exist with reference to some definite goal under each of the two abovementioned requirements. But, so far as the public are aware, no such goal exists. That the railways are insufficiently equipped with traffic facilities is an age-long complaint. This may be due to insufficiency of the funds or inefficiency of our railway administrators. The disclosure made by the Indian Retrenchment Committee of 1922–23 gives room for suspicion that the latter element is not entirely inoperative. Similarly, in para. 26 of its report, the Indian Railway Committee of 1920–21 says that on the Great Indian Peninsula Railway 'Inwards traffic from the East India; Bengal

and Nagpur; Bombay, Baroda and Central India; Madras and Southern Mahratta; Nizam's Guaranteed State; and other railways is restricted at 15 junctions to from 600 to 30 wagons daily.' This state of affairs could not have come about without material help from inefficiency. Obviously there has been no goal and if at all there was any goal before the minds of our railway administrators at any time, there has been a serious lack of co-ordination in the development of the different parts of the State-owned railway system and a lack of balance between the track facilities provided and the rolling stock additions on the group in charge of each railway administration, or between one class of rolling stock and another. The excuse of inadequacy of funds is clearly being overworked in so far as existing lines of railway are concerned. As regards new railways, here also there has been no goal, nor apparently is there any now. For a long time 20.000 miles was the height of ambition of the Government of India. This figure was reached during the viceroyalty of Lord Elgin. During the vigorous administration of Lord Curzon the new lines constructed and opened amounted to the unprecedented figure of 6,255 miles while the total mileage now open amounts to no less than 37,000 miles. The thirst of our rulers for new railroads is insatiable. We do not know what mileage our administrators have in view for construction and with this conveniently indeterminate ultimate mileage the complaint of inadequate funds is immortal.

As regards the complaint that the supply of funds for railway works chargeable wholly or partly to capital varies from year to year, there can be no denying the fact that the existing defects in the

equipment of railways are to a large extent, though not wholly, the inevitable result of a system of railway capital finance which forces a continuous, growing, expanding concern like the railways to conform to a one-year basis; and a big step forward in the right direction has been taken by the Legislative Assembly in guaranteeing a supply of Rs. 150 crores on the basis of a quinquennium ending 1926-27, with its corollary of the abolition of the system of annual lapses, and thus practically separating the railway capital finance from the general finance of the Central Government and thus placing the Railway Board for the first time in a position to plan ahead and to carry out their schemes of improvement.

The evils arising out of the dependence on railway capital grants on the fluctuating finances of the Central Government have been met by the system now in force of quinquennial guarantee of funds for railway capital works. The difficulty in respect of revenue grants, however, still remains to be overcome. Railway revenue expenditure may for our present purposes be divided into three main classes :—

1 Ordinary working expenses ;

2 Expenditure on normal renewals or replacements; and

3 Expenditure on special renewals or replacements.

Ordinary working expenditure under class 1 above includes salaries, coal and other consumable stores, day-to-day repairs and maintenance, necessary to earn the revenue budgeted for. It will be seen from paragraph 53 of the report of the Indian Railway Committee of 1920-21 that it has no complaint to

make regarding the provision of funds for expenditure of this class. Expenditure under class 2 relates to replacement of items of railway property not capable of further service by those of equal or superior efficiency and durability. The difficulty at present existing of financing this class of expenditure does not directly arise out of the dependence of railway finance on the general finances of the Central Government. It is due, as explained in paragraph 68 of the report of the Indian Railway Committee of 1920-1921, to the unwise methods of the past in the Government having formed no replacement fund. The real position is clearly and *agreeably* described in paragraph 5 at pages 4 and 5 of the Railway Administration Report for 1921–22 thus :—

"As was explained in the last administration report, an ordinary commercial concern provides for depreciation of its property by setting aside annually a certain portion of the profits for credit to a depreciation fund which is charged with renewals as they are made. It has been hitherto held to be inconsistent with the ordinary scheme of Government finance to set aside for the future money not actually required for the current year's expenses. No provision is, therefore, made for depreciation and the expense of renewals of worn-out plant is not a part of the ordinary annual working expenses. The result is obvioulv to make this vital matter of renewals dependent, as used to be the case in respect to capital, on the state of Government of India ordinary finance."

The Railway Finance Committee has recommended the formation of a depreciation fund in order that funds for this class of expenditure may be provided for automatically. When this depreciation

fund is fully formed, the present difficulty will disappear irrespective of whether the railway finance is or is not separated from the central finance of the Central Government. Expenditure under class (3) relates to premature renewal of items (i. e., before they have given their full amount of services) which have to be undertaken, e. g., on account of increased efficiency and economy obtainable from the reconstruction of the works to improved designs or from substitution of machinery, plant, rolling stock, etc., of new or improved design. In the absence of a proper depreciation fund, finacial provision for this class of expenditure is dependent entirely on the fluctuating condition of the general finances of the Central Government from year to year. The formation of a depreciation fund will only lesson this dependence but not remove it. It is obvious that this distance between lessened dependence and its complete removal must be covered by a special fund. But the probable nature of such premature renewals, their probable extent, the probable time of their occurrence, and the probable total liability on railway revenue are all necessarily so indeterminable, that it is impossible to create a fund with a reasonable promise of being adequate without being one of extravagant dimensions. The choice there lies between having no fund at all or having one without the certainty of its being reasonably adequate. Common sense suggests that if you cannot go the furthest length do not stop where you are but go as far as you can. Our railway administrators have no less than 75 years' experience behind them and we have no doubt that with this experience and past records they will be

able to arrive at a tentative standard for a special fund out of which to meet the revenue liability on account of premature renewals.

The conclusions which emerge from the consideration which we have so far given to the subject are

(i) that the one-year basis for financing railway works involving a charge to capital must be given up permanently in favour of a basis covering a series of years;

(ii) that the one-year basis for financing works involving a charge to revenue must also be abandoned in favour of the setting up of a Depreciation Fund and a Special Renewal Fund; and

(iii) that there is no necessity to disturb the present one-year basis for financing Ordinary Working Expenses.

The adoption of these measures should provide a resonably substantial guarantee that under normal circumstances, funds for railway works would be forthcoming as and when required. The proposals in paragraphs 74 and 75 of the report of the Indian Railway Committee of 1920-21, however, go much further than a guaranteed supply of funds, although all the deficiencies in railway equipment are attributed primarily to the absence of a guaranteed supply of funds. The central proposal of the Committee is that the *net* profits earned by railways which at present accrue to the general Exchequer should as a normal procedure be surrendered to the Railway Department and that the latter should be free to de-

vote them to new capital purposes or to reserves or to dissipate them in the form either of reduction of rates or improvement of services. The Committee has advanced no reasons whatever in support of a proposal so drastic both in its nature and in its extent. This proposal involves questions of great importance and far-reaching character touching the principles and policy to be adopted in the future administration of the railways. We shall suggest only a few of the questions to which satisfactory answers will have to be found, viz.—

Is it safe to place so much discretionary power into the hands of our unnational railway administrators? The experience of the working of the old machinery has been disappointing, while the new machinery has yet to be fully installed and its working tested!

Is it wise to abandon the present policy of administrating the railways so as to produce a profit to the *general tax payer* who has borne heavy burdens in the past and who, as the owner of the railways, will have to bear ultimate liability for possible economic failure of the railways?

Is it in the interest of the nation that *revenue* funds should be spent for *capital* purposes, irrespective of the other needs of the country of equal or even greater importance?

Is it wise to give the Executive unrestrained power to dissipate railway profits in the form either of reduction of rates or improvement of services? It must be remembered that the Legislature itself has no statutory power of any kind in the matter of rates and fares and that the manipulation of rates

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and fares by the Executive and the distribution of improvement in service has in the past not been above seriou suspicion either from the national or even from the commercial point of view.

Is it politic to grant all this measure of fiscal autonomy to an Executive which has yet to fall in line with the desire of the country for universal State management of Indian railways? (6th March 1924.)

SEPARATION OF RAILWAY FINANCE

WHEN we wrote our article on "Fiscal Autonomy for Railways" which appeared in the issues of the SERVANT OF INDIA of February 28 and March 6 last, we did not have before us the Government scheme for the separation of the Railway from the general finances of the country. This scheme is now before us in the form of a resolution moved by the Hon. Sir Charles Innes in the Legislative Assembly on March 3, 1924. The resolution runs as follows:—

"This Assembly recommends to the Governor General in Council that in order to relieve the general budget from the violent fluctuations caused by the incorporation therein of the railway estimates and to enable the railways to carry out a continuous railway policy based on the necessity of making a definite return over a period of years to the State on the capital expended on railways:

(1) The railway finances shall be separated from the general finaces of the country and the general revenues shall receive a definite annual contribution from railways, which shall be the first charge on railway earnings.

(2) The contribution shall be a sum equal to five-sixths of 1 per cent. on the capital at charge of the railways (excluding capital contributed by Companies and Indian States and capital expenditure on strategic railways) at the end of the penultimate financial year *plus* one-fifth of any surplus profits remaining after payments of this fixed return, subject to the condition that if any year railway revenues are insufficient to provide the percentage of five-sixths of 1 per cent. on the capital at charge, surplus profits in the next or subsequent years will not be deemed to have accrued for purposes of division until such deficiency has been made good.

From the contribution so fixed will be deducted the loss in working and the interest on captial expenditure on strategic lines.

(3) Any surplus profits that exist after payment of these charges shall be available for the railway administration to be utilised in

(*a*) forming reserves for

(i) equalising dividends, that is to say, for securing the payment of the percentage contribution to the general revenues in lean years,

(ii) depreciation,

(iii) writing down and writing off capital,

(*b*) the improvement of services rendered to the public,

(*c*) the reduction of rates.

(4) The railway administration shall be entitled, subject to such conditions as may be prescribed by the Government of India, to borrow temporarily from capital or

from the reserves for the purpose of meeting expenditure for which there is no provision or insufficient provision in the revenue budget subject to the obligation to make repayment of such borrowings out of the revenue budgets of subsequent years.

(5) In accordance with present practice the figures of gross receipts and expenditure of railways will be included in the Budget Statement. The proposed expenditure will, as at present, be placed before the Legislative Assembly in the form of a demand for grants and on a separate day or days among the days allotted for the discussion of the demands for grants the Member in charge of Railways will make a general statement on railway accounts and working. Any reductions in the demand for grants for raliways resulting from the vote of Legislative Assembly will not enure to general revenues, i. e., will not have the effect of increasing the fixed contribution for the year.

(6) The Railway Department will place the estimates of railway expenditure before the Central Advisory Council on some date prior to the date for the discussion of the demand for grants for railways."

In this article we propose to consider the proposals embodied in this resoution, as though the necessities of the case could not be met by guaranteeing a continuous supply of funds, both capital and revenues, and the objections indicated in the previous article did not exist. The scheme differs in the following principal respects from that outlined in paragraph 74 of the report of the Indian Railway Committee of 1920-21. It is more detailed and precise; it does not contemplate the use of *revenue* monies for *capital* purposes; and finally it rejects the claim of the railways to the entire net profits and provides for a definite contribution to the general revenues. The resolution is supported by two very elaborate notes of great plausibility by the Chief

Commissioner and the Financial Commissioner for Railways; the first explaining the necessity for separation and the advantages of the particular scheme proposed, and the second shewing why the particular method of assessing the contribution to be made by the Railways to the general revenues has been adopted. Turning now to the details of the Government scheme we find that it is proposed that the general revenues shall receive out of the net profits of the railways a percentage contribution based on the capital at charge of the railways (excluding capital contributed by Companies and Indian States and capital expenditure on strategic railways). We question the propriety of basing the percentage firstly on the capital at charge and secondly on a reduced capital at charge (i. e. excluding capital contributed by Companies). Dealing with the second point first, the notes supporting the Government resolution do not explain why, in arriving at the percentage contribution to the general revenues, it is necessary to exclude capital contributed by Companies. As will be seen from paragraphs 193–201 of the report of the Indian Railway Committee of 1920–1, what is described as "capital contributed by Companies" is merely State loans under different names. The whole of the proceeds of these loans is invested in the State railways and the Companies own no property against this so-called capital. It is no real investment by the Companies, who are paid interest on the monies at guaranteed rates, who share no losses and who share profits not as shareholders but only as agents for working the State railways. There is therefore no justification whatever for singling out these particular loans for exclusion

from the amount on which the percentage contribution to the general revenues is to be made.

Our objection to the precentage contribution being based on "capital at charge" is that "capital at charge" represents an amount less than the monies actually spent in creating the railway property. It does not, for instance, include the cost, running into several crores of rupees, of lands paid for out of revenue and used for the following railways prior to the purchase of the railways by the State :—

(1) Bengal Central,
(2) Bombay Baroda and Central India,
(3) Brahmaputra Sultanpur,
(4) Deoghur,
(5) Eastern Bengal,
(6) East Indian,
(7) Great Indian Peninsula,
(8) Kalka-Simla,
(9) Madras,
(10) Mymensingh-Jamalpur-Jagannathganj,
(11) Nilgiri,
(12) Noakhali (Bengal),
(13) Oudh and Rohilkhand,
(14) Ranghat Krishnagar,
(15) Scinde, Punjab and Delhi,
(16) Segowly Raxaul,
(17) South Indian,
(18) Tarkessur.

Land is an integral portion of railway property and as such its cost is a legitimate charge against capital. Similarly, the "capital at charge" does not include payments made annually out of revenue on account of annuity and sinking funds in extinction

of a portion of the original cost of certain railways purchased by the State from the old guaranteed railway Companies. As will be seen from paragraph 31 of the Finance Member's Budget speech, of February 29, 1924, Government have decided that such charges should henceforth be excluded from the Railway Budget and would not go to increase the revenue expenditure of railways or to reduce the capital at charge; and if this decision is right in principle as regards future charges of this nature, it would be equally right to take a similar decision as regards past charges and correct the amount now held to be capital at charge by increasing it. These are only two of the several instances where capital charges have been met out of revenue and an attempt must be made to bring all such charges together, calculate interest thereon and start a regular capital account. On principles of commercial accounting, the true basis to adopt for the percentage contribution to the general revenues is, however, not the total amount of monies expended by the State in creating the propery, but an amount which also includes the real losses from the inception of the railway service borne by the general revenues calculated at 4 percent, compound interest *less* the sums surrendered to the general revenues during the period as railway profits with compound interest. A calculation made on the lines indicated will show that the total capital invested in the railways since the inception of the railway service is nearer Rs. 1,000 crores than the "capital at charge" of Rs. 646 crores. (See sections 5A, 6 and 7 of "Indian Railways" by Rai Saheb C. P. Tiwari.) It will thus be seen that the railways have never been in the past

a commercial success in the true sense of the term, nor can they be described as such even now. On this railway debt of Rs. 1,000 crores not only is it impossible to show a commercial profit for a long time to come, but for a good many years it will be impossible to show that the railways earn enough to cover even interest charges. To describe the railways as making a contribution to the general revenues out of profits on an under-stated capital of Rs. 646 crores under the separation scheme is therefore, to persist in the course of self-deception which we have followed for nearly a quarter of a century. The so-called contribution by the railways to the general revenues can with honesty be described only as payment of a portion of the interest justly due on the debt obtained from the taxpayer under compulsion as distinguished from the debt given by the public out of their own free will. With this debt to the general revenues ascertained, the railways should be required to pay interest at, say, 4 per cent., any short payment of this interest being added on to the amount of the debt at the general revenues. The railways shoul be required to pay every year, instead of a percentage on the capital at charge, a minimum of Rs. 4½ crores, this minimum to be increased by Rs. 20 lakhs every year till the entire interest charges on the debt taken from the taxpayer can be met.

The proposal to deduct the loss in working and the interest on capital expenditure on strategic lines from the sum of the contribution to the general revenues of five-sixths of 1 per cent. on the capital at charge of commercial railways and one-fifth of

any surplus earnings, introduces an element of avoidable uncertainty in the "regular and increasing contributions" to the general revenues. Statement II attached to the Finance Member's Budget speech of February 29, 1924, shews that the net contribution is arrived at as under :—

			Rs.
(xvi)	5/6ths of 1 per cent. on capital at charge		4,53,67,000
(xviii)	1/5th of surplus profits		1,06,33,000
(xix)	Total contributoin		5,60,00,000
(xx)	*Deduct*		
	(*a*) loss in working strategic lines	30,94,000	
	(*b*) interest on capital at charge, strategic lines	1.01 76,000—	1,32;70,000
(xxi)	Net contribution		4,27,30,000

It will be seen from this extract that the net contribution *by the railways* to the general revenues will vary with the amount of this deduction on account of strategic lines, and will not relieve the general budget from fluctuations on the wrong side, which, according to our reading of the preamble of the resolution, is the object of the separation scheme. Such fluctuations can be avoided by adopting alternaive (iii) suggested at page 11 of the Servants of India Society Pamphlet No. 8, "Railways and the Budget", viz, that the Army Budget should make up to the Railway Budget any shortage in gross earnings necessary to cover interest charges and working expenses. It is no doubt true that this freedom from fluctuations on the wrong side is secured by a mere book entry. But such book entries in the case of a separate undertaking worked on commercial

lines has been accepted as correct in principle by no less an authority than Sir William Acworth in his report on the Reconstruction of the Austrian State Railways and endorsed by Dr. Zimmerman in his preface to the report. (May 15, 1924).

II.

WE gather from clause 3 of the Government resolution that the proposal is to make the formation of the depreciation reserve dependent on the surplus profits being available. If so, it is entirely wrong in principle and vicious in practice. That a contribution to the depreciation fund should be taken into account not after but before arriving at surplus profits, and that the amount of this contribution should be determined not by the existence or the size of the surplus profits but by the life period of the railway property, do not require to be enunciated as new principles, especially to a department which has never tired of professing to run the railways on commercial principles. There are at least two recent Indian Committees of Enquiry which have endeavoured to impress on the Government of India the absolute necessity for a strict observance of the principles. We give below the relevant extracts (italics ours):

> "Now in every commercial concern Capital expenditure and Revenue expenditure are constantly intermixed. And a prudent board of directors...takes very good care that *Revenue is debited with its full* share. The principle is clear that by the time the useful life of an asset or a building has expired, its full original cost should have been written off out of Revenue.
>
> This has not been the case on the Indian Railways. There are scores of bridges with girders unfit to carry train loads up to modern requirements; there are many miles of rails,

hundreds of engines, and thousands of wagons, whose rightful date for renewal is long overpast. Their cost has not been written off. They stand in the books at the original figure. The Government has formed no replacement reserve. It is not now physically possible within a short period of one or two years to replace all the plant of which the economic life is exhausted...The position due to the *unwise* methods of the past must be redressed gradually. It will never be redressed under the present system...*but only when commercial accounting methods are introduced in the management of a commercial undertaking.*

In our judgment, a financial system which produces these results stands self-condemned . . . Railway management is a highly technical business. It should be placed in the hands of those who understand it." (Paras. 67–69 of the report of the Indian Railway Committee of 1920-21).

"We ., . are of opinion that it should be laid down that each railway should make adequate provision every year for the maintenance and renewal of its permanent way and rolling stock. *The funds so earmarked should be debited to working expenses* and carried to a suspense account which could be drawn on as necessary to meet current requirements, any unspent balance being carried forward from year to year. Unless some such arrangements are adopted and strictly adhered to, it will not, in our opinion, be possible to say whether the railways are earning an adequate return on the capital outlay and there will be no effective check on ordinary working expenditure.

"It is necessary, however, to make special provision to overtake the present arrears, as no funds are available in suspense accounts . , . We consider that the best course will be that each railway should credit a suspense account with a portion of any surplus funds available after payment of interest and sinking fund charges, for the specific purpose of overtaking arrears of renewals. This provision should, we think, not exceed the average annual amounts which would be necessary to overtake the arrears in five years."

"The underlying principle of a Renewal Fund is to ensure that adequate fiancial provision is being made for deprecia-

tion and this is particularly necessary in the case of railways which are rapidly expanding. In such cases *it is obvious that there is a great difference between (a) the financial provision which would be made against depreciation and (b) the amount which should be spent annually*." (Paras. 7 and 24 of Part II of the Indian Retrenchment Committee of 1922-23.)

Again, in Section I of Chapter II of Sir William Acworth's report dated 1923 on the Reconstruction of the Austrian State Railways occurs the follwing:—

"On the other hand, there are debits against the railways which are not at present brought into account. First and foremost they must form a renewal and depreciation reserve. No business undertaking can strike a proper balance of profit and loss *till after adequate provision has been made for the wasting and depreciation of its capital assests*".

We can understand the expediency, although not the inevitability, of placing the obligation to make good the heavy accumulations of *arrears of depreciation* on surplus profits, but we cannot understand why the current depreciation also should be provided for as a normal procedure out of surplus profits, in spite of the fact that the whole weight of the universal law of commercial accounting demands that the credits to the fund should be obtained by corresponding debits to working expenses. The provision in the resolution to use surplus profits must, in these circumstances, be specifically limited to arrears of depreciation and cannot be given a permanent place amongst the uses to which surplus profits are to be put.

As regards the provision for building up a reserve out of profits for writing down and writing off capital the necessity here also is only temporary. As pointed out by Sir Purshotamdas Thakurdas at

page 1558 of the Legislative Assembly Debates, Volume IV, losses on account of depreciation, etc., of stores in stock should be written off from year to year and not allowed to accumulate. Provision for a reserve for such losses as a permanent feature postulates that the losses on accout of stores, which remained unnoticed over a series of years until they have now accumulated to no less than the huge sum of Rs. 3 crores, will normally recur. This postulate cannot be accepted in a scheme which is professedly businesslike and the scope of this reserve must be specifically limited to the contingency which has arisen.

There are two other purposes on which surplus profits are under the scheme of separation proposed to be utilized, and the existence of accumulated surplus profits is made a condition precedent to the fulfilment of those pupposes. These purposes are:—

(a) the improvement of services rendered to the public, and

(b) the reduction of rates.

This is all right so far as it goes. But it must be remembered that the measures of comfort and convenience at present provided by the railways, particularly for third class passengers, is below the minimum standard and that the manipulation of rates and fares by the Executive has not, in the past, been above grave suspicion. Under the scheme of separation the railways are to be managed under he forms of a Company, which, at p. 3756 of the Legislative Assembly Debates, Volume II, Mr. Ginwala humorously described as Messrs. Innes anl Company, and the resolution constitutes an informad

contract between the Legislative Assembly and this informal Company. The Assembly in this scheme occupies the position of a giver of monopoly and, as such, it must first obtain recognition, statutory or otherwise, of its right of regulating the services given by the railways and the payments demanded by them, so as to protect the travelling and the trading public using the railways from exploitation by extortionate charges, unjust discriminations in rates and fares and failures or delay to provide reasonable facilities.

Clause 4 of the resolution, in virtue of its own wording and in the light also of the remarks in paragraph 15 of the Memorandum by the Chief Commissioner and the Financial Commissioner for Railways on the Separation of the Railway from the General Finance, constitutes what is to all appearances a curtailment of the right of the Assembly to require its previous sanction to expenditure in excess of the accepted provision in the Budget, on the mere ground that such expenditure will not necessitate "a demand on the Assembly for additional funds as in the case of other departments, since the railway administration will be responsible for finding its own revenues." The voting of a grant by the Assembly implies three things, acceptance of the necessity for the work, approval of the cost of the work and sanction to the appropriation of funds. The mere existence of funds as earmarked for railway purposes cannot be regarded as a sufficient justification either for anticipating or treating as formal this three-fold sanction of the Assembly, which must preserve its right to consider the demand and vote it on its own merits as in the case of

the other departments. We quite agree that, for the reasons given in paragraphs 7 and 15 of the Memorandum, a commercial concern cannot be run on the basis that the ordinary re-revenue expenditure, i. e. operating expenses, in a particular period of 12 months is not to exceed a fixed figure, since such expenditure is largely affected by conditions of traffic which cannot be foreseen and that if a larger outlay promises increased returns, the rigid limitation of expenditure may result in nothing but loss. But the demand made for freedom to exceed the budgeted provision covers the whole field of railway expenditures instead of being limited to operating expenses only. The real difficulty could quite easily be got over by the Assembly conceding to the railway administration the power to exceed the budget provision for operating expenses within a fixed percentage of the traffic receipts.

As regards clause 5 of the resolution, the only suggestions we have to make are that the railway demands should be split up into a larger number and that the number of days now available for their discussion should be increased. In this connection we would invite a perusal of the first 4 pages of the Servants of India Society Pamphlet No. 8, "Railways and the Budget" and paragraph 22 of the report of the Public Accounts Committee on the accounts of 1921-22.

Coming to the last clause of the resolution, viz., No. 6, we do not see what advantage will be secured, from the point of view of the non-official members in the Assembly, by placing the estimates of railway expenditure in advance before the General Advisory Council, which i after all composed of members

selected by the Executive from the two Houses and whose proceedings are not published. We would suggest that the railway estimates be placed before a special Railway Finance Committee formed on the lines of the Standing Finance Committee, and that the proceedings of that body be made available to members of the Assembly.

The result of the consideration which we have given to the Government resolution may be summed up in the form of the following amended resolution :—

"This Assembly recommends to the Governor-General in Council that in order to relieve the general budget from the violent fluctuations caused by the incorporation therin of the railway estimates and to enable to carry out a continuous railway policy, the railway finances shall be separated from the general finances of the country in the following manner :—

(I) An account shall be made up showing, *as far as possible*, the amounts spent from the inception of railway service to March 31st, 1924, out of revenue for capital purposes and on account of losses, with compound interest thereon at 4 per cent. per annum minus the amounts appropriated by the general revenues as railway profits during that period with compound interest thereon at the same rate. This account shall be added to from time to time as may be necessary in terms of (VI) below.

(II) The railway debt shall consist of two parts viz. (a) debt taken from the public and allocated to the railways, and (b) debt taken from the taxpayer as in (I) above.

(III) On the debt as in (II) (a) the railways shall pay to the general revenues in full the interest charges which shall be the first charge on railway earnings.

(IV) On the debt as in (II) (b) the railways shall pay to the general revenues as the second charge on railway earnings a minimum of Rs. 4½ crores increasing by Rs. 20 lakhs a year by way of interest.

(V) The general revenues shall further receive from the railways one-fifth of any earnings remaining after the payments in (III) and (IV) above, subjects to the condition that, if in any year railway revenues are insufficient to provide the amounts in (III) and (IV) above, the one-fifth there will not be payable by the railways until such deficiency has been made good.

(VI) Any difference between the amount due as interest calculated at 4 per cent. per annum on the debt in (II) (b) above and the amount paid to the general revenues as per (IV) and (V) above, will be added to the amount of that debt.

(VII) In no case shall the railways be required in any year to make a payment as per (IV) and (V) above in excess of the interest due on the debt for the time being as per (II) (b) above.

(VIII) Any earnings that exist after payment of these charges shall be available for the railway administration to be utilised in—

(a) forming reserve for—

(i) securing the payments in lean years as per (III) and (IV) above,

(ii) arrears of depreciation as existing at present,

(iii) writing off losses incurred up to date on account of depreciation, etc., of stores in stock,

(b) the improvement of services rendered to the public,

(c) the reduction of fares and rates.

(IX) The railway administration shall be entitled, subject to such conditions as may be prescribed by the Government of India, to borrow temporarily from capital or from the reserve for the purpose of meeting operating expenses for which there is no provision or insufficient provision in the revenue budget, subject to the obligation to make repayment of such borrowings out of the revenue budgets of subsequent years, and subject also to the condition that the ratio of the additional operating expenses to the estimated additional gross earnings does not exceed the ratio adopted in the budget.

(X) In accordance with recent practice the figures of gross receipts and expenditure of railways will be included in the Budget Statement. The proposed expenditure will be placed before the Legislative Assembly in the form of demands for grants, the number and description of the demands being determined by a small committee of the Assembly. The number of days allotted for the discussion of these damands shall be not less than seven, and on a separate day or days among the days so allotted the Member in charge of Railways will make a general statement on railway accounts and working. Any reductions in the demands for railways resulting

from the vote of the Legislative Assembly will not enure to general revenues, i. e., will not have the effect of increasing the payments as per (III), (IV) and (V) above for the year.

(XI) The Railway Department will place the estimates of railway expenditure before a Special Railway Finance Committee to be constituted on the lines of the Standing Finance Committee on some date prior to the date fixed for the commencement of the discussion of the demands for grants for railways. (May 22, 1924.)

SEPARATE RAILWAY FINANCE IN PRACTICE—I.

WHEN the Budget for 1924–25 was presented to the Legislature on February 29, 1924, it was made clear by the Finance Member in his speech that the Railway portion of the Budget was framed on the assumption that the resolution which had been tabled a few days earlier on the subject of the separation of the Railway from the General Finances of the country would have been accepted by the Legislative Assembly. It is not proposed in this article to raise the question whether this anticipation of the resolution by the Legislative Assembly was right, any more than whether a similar anticipation was right, to which pointed attention was drawn by Sir Purshotamdas Thakurdas, of the passing of the

Finance Bill enabling Government to credit the interest on the Paper Currency Reserve to revenue. What we desire in this article to do is to turn our attention to the speech comparing the contribution from Railways to General Revenues in the year 1924-25 under the present and proposed (separation) systems.

A scrutiny of this statement shows that the large contribution of over Rs. 4 crores under either system has been arrived at by what we consider to be abnormal processes of calculation, while if normal processes had been followed the contribution under either system would not have come up to even Rs. 3 crores—a result which would have deprived Government of the chance of raising the question of a reduction in the Provincial contributions. We give below two statements comparing the result arrived at under both processes of calculation.

APPENDIX A.

Present System.

(Figures of thousands of rupees.)

Our calculation.				Government's calculation.
97,06,92	... ...	(i) Gross traffic receipts		97,06,92
		Deduct—		
	68,23,04	(*a*) Working Expenses	66,68,04	
69,37,91	1,14,87	(*b*) Share of Surplus Profits paid to Indian States and Railway Companies	1,14,87	67,82,91
27,69,01		(ii) Net receipts ...		29,24,01
25,92	... ...	(iii) Subsidized Companies, Government share of surplus profits ...		25,92
27,94,93		(iv) Total net receipts ...		29,49,93

	19,18,05	(v) (*a*) Interest on capital at charge ... 19,18,05	
	2, 97,56	(*b*) Interest portion of annuities in purchase of railways 2, 97,56	
	2, 80,09	(*c*) Interest on capital contributed by Indian States and Railway Companies 2,80,09	
24,95,70			24,95,70
16,00...	...	(vi) Land and subsidy...	16,00
		(vii) Miscellaneous Railway Expenditure ...	22,45
25,34,15...	...	(viii) Total (v), (vi), and (vii)	25,34,15
2,60,78...	...	(ix) Net contribution from Railways to General revenues [(iv) *minus* (viii)]	4,15,78

It will be observed that the figure for Working Expenses in Statement A is 1,55,00 less under the Government's calculation than under ours. This is due to two causes :—

(i) The Government's figure does not include the credit of Rs. 115 lakhs due to Working Expenses in strict accordance with the principles of commercial accounting.

(ii) The Government's figure includes a debit of only Rs. 30 lakhs out of the total loss of Rs. 300 lakhs on account of stores in stock.

As regards the credit of Rs. 115 lakhs, the Government's contention is that they would not be justified in following the commercial principles of allocation of expenditure on renewals unless they also followed commercial practice and started a

depreciation fund, which fund in its turn goes together with the question of keeping railway accounts in a commercial form, involving among other things the whole proposals which are connected with the separation of the railway from the general finances of the country. (Pages 1555 and 1561 of the Legislative Assembly Debates. Volume V).

STATEMENT B.

Proposed System.

(Figures in thousands of rupees.)

Our calculation.			Government's calculation.	
97,06,92 ...	...	(i) Gross traffic receipts ...		97,06,92
		Deduct—		
	68,23,04	(*a*) Working Expenses	65,23,04	
66,37,91	1,14,87	(*b*) Share of Surplus Profit paid to Indian States & Railway Companies	1,14,87	66,37,91
30,69,01		(ii) Net receipts ...		30,69,01
25,92 ...	...	(iii) Subsidized Companies, Government share of surplus profits ...		25,92
30,94,93		(iv) Total net receipts ...		30,94,93
	19,18,05	(v) (*a*) Interest on capital at charge ...	19,18,05	
	2,97,56	(*b*) Interest portion of annuities in purchase of railways	2,97,56	
24,95,70	2,80,09	(*c*) Interest on capital contributed by Indian States and Railway Companies	2,80,09	24,95,70

16,00 ...	...	(vi) Land subsidy ...	16,00
22,45 ...	...	(vii) Miscellaneous Railway Expenditure ...	22,45
2,72,90 ...	...	(viii) Railway reserves ...	1,33,48
28,07,05 ...	...	(ix) Total (v), (vi), (vii) and (viii)	26,67,63
2,87,88 ...	...	(x) Net contribution from Railways to General revenues [(iv) *minus* (ix)]...	4,27,30

The present method of allocation of expenditure on renewals is that renewals of items of railway equipment with others of the same type are paid for entirely out of revenue funds, irrespective of whether the original cost was in defect or in excess of the present cost. The consequence is that the particular asset, after renewal, is always represented in the capital account by its original cost; whereas, strictly speaking, the capital account should represent the amount actually spent on the assets. It has been admitted by Government that the present method of allocation is vicious in so far as it is in complete violation of all principles of commercial book-keeping. What necessary or inevitable connection, however, there is between the adoption of a correct method of allocation of actual expenditure to final heads of account and the establishment of a depreciation fund, we simply cannot understand. Each stands on its own merits and if the adoption of a correct method of allocation is impossible, it would be highly desirable to examine, before the separation of the railway from the general finances is agreed to, the exact ingredients of the contemplated depreciation fund which makes correct allocation lie helpless at the feet of this fund. The establishment

of a depreciation fund is a convenient device for the accumulation of monies for a specific purpose. It is primarily a mode of finding finance for renewals and automatically provides a measure of the service given by the assets, an effective check on ordinary working expenditure and a means of ascertaining whether an adequate return is being obtained on the capital outlay. 'Depreciation Fund' is not a final head of account, but only a suspense head; and there appears no valid reason why even in the absence of a depreciation fund adjustment between 'Revenue' and 'Capital' cannot be made on the new method just as easily as they are and can be made on the old. During the course of the debate which took place on this subject in the Legislative Assembly on March 12, 1924, the Financial Commissioner for Railways said:

> "We should not be justified in relieving revenue at the expense of capital—we should not be justified in following commercial practice and charging to revenue merely the original cost of the article replaced—unless we also followed commercial practice and started a depreciation fund. That is really the sole explanation of this Rs. 115 lakhs."

If this means that the commercial accounting of this particular class of expenditure is not justifiable because, under the present system of Railway finance, railway accounts are at present all made out on uncommercial principles, the argument has no force at all since it is not a fact that railway accounts are kept on a wholly uncommercial basis. In the debate referred to above, Mr. K. Rama Aiyangar clinched the point and asked what would be the effect of adopting the new method of allocation even if the railway finances remained unseparated

as at present. But of course no direct reply was forthcoming!

The only plausible argument we can think of is that in the opinion of Government the present uncommercial method of allocation of expenditure on renewals gives a debit to Revenue which makes up for at least a part of the contributions which it would have had to make to the depreciation fund if one were in existence, and consequently the adoption of the commercial method of allocation of such expenditure would give an unjust relief to Revenue. According to paragraph 29 at page 76 of the report of the Indian Retrenchment Committee of 1922-23 the Committee on Depreciation estimated the normal annual depreciation at Rs. 9,19,18,000, while the amount involved in the present transaction is only Rs. 1·15 crores, and if the argument referred to above were of any validity, it should also have precluded the exclusion (to which we refer later) from the revenue account of the amount of Rs. 2·31 crores on account of sinking funds and that portion of railway annuities which represents repayment of capital.

As regards the debit to Working Expenses of only Rs. 30 lakhs instead of Rs. 300 lakhs representing losses on stores in stock, there is no question but that the whole amount of Rs. 300 lakhs must be debited to Working Expenses. That the full debit has not been made is not on grounds of principle but on grounds of expediency, the reason advanced by the Finance Member in paragraph 41 of his Budget speech being that "the contribution of the railways to general revenues during the year would be reduced almost to vanishing point." But since it is impossible to

allow factors of expediency to influence a "comparison of the contribution from Railways to General Revenues in the year 1924–25 under the present and proposed (separation) systems," we have in our calculation in statement A, *ante*, included the whole debit of Rs. 300 lakhs under Working Expenses instead of only Rs. 30 lakhs as in Government's figure. It will thus be seen that the correct figure of net contribution from Railways to General Revenues is only Rs. 260,78 lakhs and not Rs. 415·78 as arrived at by Government. (June 5, 1924).

II

Dealing now with Statement B, *ante*, the differences appearing therein are due to the Government figure of net contribution having been calculated otherwise than in strict accordance with the terms of the resolution on the subject of the separation of the railway from the general finances. This resolution lays down that the net contribution to the general revenues is to be calculated *on the actual results of the penultimate year's working*; but the Government's calculation of this net contribution has been based *on the estimated results of the last year's working*, as stated in the foot-note to Statement II accompanying the Budget speech referred to above, the only reason assigned being that the year 1924–25, for the benefit of which the results are worked out, marks the inception of the new system, as though there is some peculiar propriety or auspiciousness in celebrating the inception of the new system by immediately violating the basis of that system. If the net contribution had been calculated on the penultimate, instead of on the last, year's working, the result would have been as follows :—

(Figures in thousands of rupees.)

		Actuals for 1922-23.
A. (i) Capital at charge ; all lines		6,22,20,27
Deduct—		
(*a*) for strategic lines ...	25,32,51	
(*b*) for capital contributed by Indian States and Railway Companies	74,94,47	1,00,26,98
(ii) Capital at charge, commercial lines ...		5,21,93,29
(iii) Contribution at 5/6ths of 1 per cent. ...		4,34,94
B. (i) Gross traffic receipts, all lines		93,22,14
Deduct—Receipts, strategic lines ...		1,55,26
(ii) Gross traffic receipts, commercial lines ...		91,66,88
(iii) Working expenses, all lines		65,96,16
Deduct—Expenses, strategic lines ...		2,22,34
(iv) Working expenses, commercial lines ...		63,73,82
(v) Share of surplus profits paid to Indian States and Railway Companies ...		69,40
		64,43,22
(vi) Net receipts, commercial lines [(ii) *minus* (iv) and (v)]		27,23,66
Add—Subsidized Companies, Government share of surplus profits		26,41
(vii) Total net receipts		27,50,07
(viii) Interest on capital at charge, all lines ...		16,34,47
Deduct—Interest, strategic lines		95,29
(ix) Interest on capital at charge, commercial lines		15,39,18
(x) (*a*) Interest portion of annuities in purchase of Railways		3,33,50
(*b*) Interest on capital contributed by Indian		

(Figures in thousands of rupees

		Actuals for 1922-23
States and Railway Companies ...		3,35,56
(xi) Total interest charges, commercial lines.		22,08,24
(xii) Land and subsidy		9,43
(xiii) Miscellaneous Railway expenditure ...		21.00
(xiv) Total (xi), (xii) and (xiii)		22,38,67
(xv) Net gain from commercial lines (vii) *minus* (xiv)		5,11,40
(xvi) Contribution at 5/6ths of 1 per cent, on capital at charge (A (iii)		4,34,94
(xvii) Surplus profits		76,54
(xviii) 1/5th of surplus profits		15,31
(xix) Total contribution [(xvi) *plus* (xviii)] ...		4,50,25
(xx) *Deduct*—		
(*a*) loss in working strategic lines	67,08 ...	...
(*b*) interest on capital at charge, strategic lines	95,29	
		1,62,37
(xxi) Net contributiou		2,87,88

(This figure has been worked out on the figures in Statement No. 25 A of the Finance and Revenue Accounts of the Government of India for the year 1922-23 and on page 9 of the Explanatory Memorandum of the Railway Budget for 1924-25.)

It will be seen that, had the contribution to the General Revenues been arrived at on the basis of the actual results of the penultimate year's working as contemplated in the resolution, instead of on the basis of the estimated results of the last year's working, the General Revenues would have received only Rs. 2,87,88,000 instead of Rs. 4,27,30,000 and the

Railway Reserves Rs. 2,72,90,000 instead of only Rs. 1,33,48,000.

From the analysis made by us the conclusion is irresistible that according to the figures in the comparative statement appended to the Finance Member's Budget speech the General Revenues receive more from the Railways than they are legitimately entitled to, viz., Rs. 1,55,00,000 more under the non-separation system and Rs. 1,39,42,000 under the separation system. This means a corresponding surrender by the Railway Administration.

It must be remembered that railway revenues in the future will have to provide a reserve not only for future depreciation of the existing stock, but to make good the depreciation reserve that should have been built up from their revenues of past years. Further, the railways, for some years to come, will have to be meeting from current revenues the heavy arrears of maintenance and repairs which could not be carried out during the war. The deficient expenditure on maintenance and repairs during the war not only led to a large increase in the amounts required for these purposes in subsequent years but also accelerated deterioration of the wasting assets of the railways, with the result that much of the rolling stock, machinery and plant will now have to be replaced long before the end of their normal life. The railways will not only require to spend the whole of any reserves but many even have to borrow money temporarily to meet expenditure for which such reserves should have been in existence. [Paragraph 13 of Appendix I to the Memorandum dated February 21, by 1924, by the

Chief Commissioner and the Financial Commissiner for Railways on the Separation of the Railway from the General Finances.] In the face of these out-standing heavy liabilities, the surrender referred to above is calculated to encourage confidence in the capacity of the present Railway Administration to run the railways on truly business lines. In fact, we begin seriously to doubt whether, after all, we have succeeded in securing a Railway Administration possessing a new and independent soul and in putting a definite end to the old era of "One soul doth in two bodies dwell." If the separation of railway finance is to have any real substance and is not to be a mere show, the separation must be not *vis a vis* the Legislative Assembly but *vis a vis* the Finance Department, and a clear line of demarcation must be drawn between the Railway Administration and the Government of India as two separate entities, so that the achievements of the former may be clearly seen. The absence of such a clear line has to a very material extent been responsible in the past for the growth, development and non-detection of the evils brought to light by the Indian Railway Committee of 1920-21 and the Indian Retrenchment Committee of 1922-23 and the removal of this defect must precede the separation of the budgets.

While we have felt constrained thus adversely to criticize certain features of the comparative statement presented by Government, we note with satisfaction that under either scheme the railway revenue account is to be relieved of the illegitimate charge, hitherto made, on account of sinking funds and that portion of the railway annuities which represents repayment of capital. We congratulate

Government on this recognition of the impropriety of charging such payments to the railway revenue account and trust that it marks a definite beginning in the direction of purity of railway accounts. In view, however, of this material alteration in railway accounts, it is desirable to invite attention to the fact that in deciding upon the amount of the Central Government's deficit which would have to be made good initially by contributions from the provinces, Lord Meston's Committee assumed that the Central Government would derive a net revenue of no less than 10¾ crores from the railways, presumably after payment of the charges on account of sinking funds and railway annuities. In judging, therefore of the approach of the net revenue of the railways to the figure of Rs. 10¾ crores, it will be necessary in future to allow for this alteration in railway accounts, that is, the figure of Rs. 10¾ crores will have to be increased by the amount of the payments made on account of sinking funds and that portion of the railway annuities which represents repayment of capital. For 1924–25 this amount is Rs. 321·64 lakhs, so that the figure of Rs. 10¾ crores will have to be increased to Rs. 13,06,64,000 in ascertaining the defict remaining to be made up by the railway during 1924–25. (June 19, 1924.)

RAILWAY EXPENDITURE AND THE INCHCAPE COMMITTEE

OUR railways, after causing a net loss to the country year after year for nearly half a century, began to shew profits from the year 1899-1900. From that time railway earnings have come to be looked upon as one of the main sources of revenue to the State. Ever since, however, the Railway Board came into the control of the railways and that control began to be operative, the ratios of working expenses to gross earnings has been steadily rising and has in consequence been a disquieting feature of our railway finance. In 1909, when the results of railway working shewed that the ratio had risen to as much as 62 per cent and had brought in a loss, the Finance Member of the time, Sir Guy Fleetwood Wilson, said:

> "It would be futile to conceal how serious an anxiety the recent activity in repairs and renewals has caused us in the face of a heavy decline in our revenue. It will clearly be necessary to relax the pace at which these improvements are being carried out. We cannot allow our railways to become again, even temporarily, a net burden on the general tax-payer." (Page 15 of the Gazette of India Extraordinary, date the 22nd March 1909.)

He repeated this warning in his last Financial Statement in the following emphatic terms:

> "This proves, I think, that I am not unsympathetic on the question of railways. I recognise fully their immense significance as an instrument of general progress, their necessity for the development of trade, their growing and indeed momentous importance to the finances of India; but in this, my last Financial Statement, I cannot refrain from

a word of warning. In spite of the reckless utterances of obviously interested critics, I continue to deprecate any departure from a policy of the utmost caution in the matter of Railway Finance. It may be that in the future it will be possible to give more scope to private enterprise and increase through its agency the funds available for railway construction, but for the present I have to regard railways as a strictly business proposition. Our responsibility is all the greater now that they have attained a position of supreme importance in our financial system. It is said that the remunerative character of our railways is beyond question, that our railways are the milch-cow of the Government of India, and that I am ungrateful. But what is the position ? We are paying in the London market very nearly 4 per cent. for what we borrow. I bear in mind that in the current year the railways have paid us 5·89 per cent. But last year the return was 4·99 per cent., in 1910-11 it was 4·66 per cent., in 1909-10 it was 4·48 per cent.: even in good years in the present state of the money market the margin is a narrow one. Let me remind you that so recently as in 1908-09 our railway system was worked at a net loss to the State. I said at the time that we must never allow our railways to become again, even temporarily, a net burden on the general taxpayer. I repeat that assertion. As matters stand we have in our railways a splendid asset. Let us safeguard that asset. Any admission of doubtful schemes, or failure to count in each case the full cost, any disregard of financial considerations will surely lead to deterioration of a most serious character." (Page 11 of the Gazette of India Extraordinary, dated the 1st March 1913.)

The warning remained unheeded. From 1914 to 1918 the Railway Board was adorned by a member of "financial and administrative" experience. This appointment, however, failed to make any impression on the extravagant administration of the railway. As will be seen from pages 21 and 22 of the Railways Administration Report for 1920-21, the working expenses continued their upward march uncontrolled. Prior to the war the ratio of working

expenses to earnings was already in the neighbourhood of as high a figure as 50. "In the later war years the proportion fell, owing to the fact that both repairs and renewals were suspended, because materials could not be obtained and this special cause served to mask (presumably also from the eyes of our financial and technical experts on the Railway Board) the fact that the cost of working was already on the increase. With the cessation of hostilities, the full effect of this was quickly apparent in a rise to nearly 57 in 1919-20, which was followed by 65½ in 1920-21 and the unprecedented figure of 76·22 in 1921-22, resulting in a deficit of no less than Rs. 9 crores. The working of 1922-23 also shews a deficit, in spite of the substantial enhancement in rates and fares made in that year. The railways in which the State is financially interested have thus collectively come to a stage of unremunerativeness involving the State in serious financial difficulties. It is obvious that for the economic rehabilitation of our railways we must rely on the combined process of reduction in working expenses and increase in traffic receipts.

In paragraph 7 of Part II of its report the Indian Retrenchment Committee says:—

> "It is, in our opininon, not practicable to make any general increase in rates and fares without adversely affecting the trade of the country. It is, therefore, clear that we cannot look to a general increase in rates and fares for any very substantial help in this economic rehabilitation and that the necessary increase in traffic receipts must come through the normal expansion of traffic and not through any special efforts that Government or Railway Administration can make. We are thus thrown back in the main on the single resource of so reducing the working expenses gradually as

to ensure that not only will the railway as a whole be on a self-supporting basis, but that an adequate return should be obtained for the large capital expenditure which has been incurred by the State."

The Committee has examined this expenditure and set out its recommendations in paragraphs 10 to 30.

The Committee has devoted a large portion of its attention to revenue expenditure. A comparison of Chapter III—"working expenses"—of the Railway Administration Report for 1921-22 with that portion of Part II of the Committee's report which deals with the identical subject shows that the Committee has, in the main, followed the official method in analysing the expenses. The two reports belong to different, categories and serve entirely different purposes. A Railway Administration Report is at once an official version and justification of the existing state of affairs. It makes out that certain of the shortcomings are due to causes beyond human control and only God can help; certain others depend for their successful elimination on the people's co-operation, and as regards the few that still remain every thing possible is being done and for their complete disappearance time must help. The report of a Retrenchment Committee—particularly of a Committee composed of non-officials—reviews the expenditure with detachment and independence, probes matters to the bottom and locates the spots where the disease of waste and extravagance exists. The one defends, the other certifies or exposes. The one believes that everything is satisfactory or justified, the other is not so credulous: it is sceptic, it tests for itself and then accepts or rejects. A method admirably suited to and adequate

for one purpose can hardly be considered as suitable or adequate for another purpose so diametrically opposed to the first. In view of this fundamental difference, one would have expected the Committee especially with the help, ready to their hands, of the railway accounts expert, Mr. Milne, who was brought out all the way from England, to adopt an independent method and to push the probe deeper than it has done. Even an analysis of the expenditure by wages and stores (wherever possible) under different divisions and subdivisions given in the Railway Revenue Budget for 1921–22 would have yielded results richer in quality as well as in quantity. These details have been excluded from the later Railway Revenue Budgets and this circumstance itself is some indication of the value of the details from the public point of view.

Further, according to the Budget estimate for 1922-23, the gross revenue receipts of the Central Government amounted to Rs. 212 crores of which the railways provided no less than Rs. 99¾ crores, equal to over two-fifths of the total revenue receipts; the gross revenue expenditure of the Government was Rs. 221½ crores and of this the raliway revenue expenditure was responsible for as much as Rs. 94¾ crores, also equal to over two-fifths of the entire revenue expenditure of the Central Government. Yet of the total railway revenue expenditure of Rs. 94¾ crores (Rs. 94, 72,09,000) the Committee's report covers only Rs. 68 crores (Rs. 67,99,00,000), the whole of this expenditure being reviewed and disposed of in less than 13 pages in a report of 293 pages! Not a word is said about the balance of Rs. 26¾ crores (Rs. 26,73,09,000). Considering the relative import-

ance of the railways as a source of revenue, the magnitude of the expenditure available for review and the comparatively wider possibilities of retrenchment we cannot help observing that the subject of railway expenditure was entitled to a considerably fuller, more serious and closer attention than it has actually received at the hands of the Committee. We are aware that the Committee had to work against time but even so, more time, should, and in our opinion could, have been made available for a fuller review of the railway expenditure without any violence to the requirements of proportion in the distribution of the time at the disposal of the Committee.

It is, however, satisfactory to note that, in spite of the defects pointed out above, the Committee has been able to make some very valuble suggestions as to the directions in which retrenchment might be made; but more valuable still are the sound general principles which it has, during the course of its examination of the revenue expenditure, enunciated and found necessary to emphasize for the incurrence of future expenditure. (September 20, 1923.)

RAILWAYS AND THE RETRENCHMENT COMMITTEE.—I.

The necessity for placing a limit on the extravaggant tendencies of our railway administrators was foreseen by the late Mr. Gokhale no less than 13 years ago. In 1910, speaking on his motion for a reduction of one crore of rupees in working expenses, he drew the attention of the Imperial Legislative Council to the extraordinary growth of working expenses which had taken place since the Railway Board came into existence and the deterioration it had caused in the country's financial position and he emphasized the necessity for fixing a proportion beyond which the Railway Board should not go in the matter of working expenses. The motion was, of course, lost as it was bound to be in the House as then constituted with a large official majority. But lapse of time has proved the wisdom of his advice. The Inchcape Committee have definitely adopted it and have laid down a definite minimum return on capital from the working of the railway property. This is a distinct step forward and therefore highly welcome.

If, however, the idea is to be properly worked out and adopted—as most certainly it should be—it is of the highest importance to ensure not only that the minimum return to be aimed at will be adequate and reasonable, but that the basis and the manner of calculating it are such as will make the return a reliable guage of the results of the working of our railways as a commercial or business

undertaking. We, therefore, propose in the first instance to subject the Committee's recommendation in this behalf to a close scrutiny, in so far as the basis of the proposed return and the manner of calculating it are concerned.

In paragraph 5 of Part II of the report the Committee says :

> "We consider that, with economic working, it should be possible for the railways in India to earn sufficient net receipts to yield an average return of at least 5½ per cent. on the total capital at charge. The average return to the State during the three years prior to the war was 5 per cent. and, in view of the fact that large amounts of additional capital are being raised at 6 per cent. or over, we think a return of 5½ per cent. cannot be regarded as excessive. A return of 5½ per cent. on the total capital at charge in 1922–23, after allowing for all interest, annuity and sinking fund payments, would yield roughly Rs. 8·5 crores to the Central revenues."

It must be explained at the outset that the expression "net receipts" used by the Committee in the first sentence of the above quotation does not correspond to the same expression occurring in the table given in the paragraph immediately preceding (i. e., paragraph 4 of Part II of the report). The net receipts as given in paragraph 5 represent the excess of total receipts over total expenditure *excluding* all interest, annuity and sinking fund charges; while the same expression as used in the table in paragraph 4 represents the excess of total receipts over total expenditure *including* all interest, annuity and sinking fund charges. This is made clear by the Committee's statement that "The average return to the State during the three years prior to the war was 5 per cent. and in view of the fact that large amounts of additional capital are being

raised at 6 per cent, or over, we think a return of 5½ per cent cannot be regarded as excessive." The percentage of 5½ is, therefore, to be arrived at in the same manner as the average percentage of 5 obtaining during the three years prior to the war was arrived at, that is, by *excluding* all interest, annuity and sinking fund charges. We reproduce below, from page 22 of the Gazette of India Extraordinary, dated the 2nd March 1915, a tabular statement showing the results of the working of railways during the three years prior to the war.

(In thousands of £)

	1911-12	1912-13	1913-14
Capital at charge at end of each year	331,247	340,103	351,302
Net working profit from railways excluding interest*	15,813	17,272	17,616
Percentage of net working profit to capital outlay ...	4·77	5·08	5·01
Net working profit from railways after meeting interest* charges	3,788	4,803	4,790
Percentage to capital outlay of net profits after meeting interest* charges	1·14	1·41	1·36

A Serious Miscalculation.

As regards the specific figure of the net gain to the Central revenues of Rs. 8·5 crores as worked out by the Committee, there appears to be serious miscalculation requiring correction. According to paragrah 13 of the Explanatory Memorandum on the Railway

* This really means all interest, annuity, and sinking fund charges and not interest charges only.

Budget for 1923-24, the total capital at charge in 1922-23 was approximately Rs. 5,64,12,73,000. A return of 5 ½ per cent. on this amount would require that the railways should produce net receipts amounting to Rs. 31,02,70,015. The standing charges, which the Committee suggests allowing for in arriving at the net gain to the Central revenues, are, according to paragraph 4 of part II of its report :

	Rs.
Interest on debt	17,03,62,000
Annuities in purchase of Railways	5,03,63,000
Sinking Fund	46,11,000
Interest on Capital contributed by Companies ...	3,32,04,000
Total standing charges ...	25,85,40,000

Allowing then for this amount, the balance left to the Central revenues out of the net receipts of Rs. 31,02,70,015, would only be Rs. 5,17,30,015 and not Rs. 8,50,00,000 as calculated by the Committee—a difference of Rs. 3,32,69,985. It appears that the Committee has omitted the charge on account of "Interest on Capital contributed by the Companies" amounting to Rs. 3,32,04,000, but has given no reason for omitting it. In any case it is certain that with a return of 5½ per cent. the gain to the Central revenues would be not Rs. 8·50 crores but only Rs. 5·17 crores.

Taking, then, that a net gain of Rs. 8·5 crores is the minimum desideratum, the railways must yield net receipts *excluding* all interest, annuity and sinking fund charges amounting to Rs. 34,35,40,000. This would represent a return on the capital at charge in

1922–23 of 6·09 per cent., instead of 5½ per cent., assuming for the time being that the basis of capital at charge for calculating the return and the manner of calculating that return are both sound. Having corrected this arithmetical error, we shall, in our next article, examine the soundness of the basis of capital at charge proposed by the Committee for calculating the return. (May 31, 1923.)

II.—RETURN ON CAPITAL.

In article I of this series we showed, assuming that *capital at charge* was the correct basis,

(i) that with the proposed minimum of 5½ per cent. the gain to the Central revenues would be only Rs. 5·17 crores and not Rs. 8·50 crores, as arrived at by the Committee; and

(ii) that in order that a net gain of Rs. 8·5 crores may be secured, the minimum return is required to be fixed at 6·09 per cent.

There are also "terminological inexactitudes" in the Committee's report which are likely to create a certain amount of misapprehension, if not confusion, as to the spirit of its recommendation. It will be noticed that the heading under which the recommendation is made refers to *capital outlay*; the paragraph in which the advisability of adopting the recommendation is explained refers to *capital at charge*; while the conclusions in which the recommendation is definitely set out refer to *capital invested by the State in railways.* The three terms employed in three different places with reference to the same recommendation are not synonymous and do not, therefore, mean one and the same thing. *Capital outlay* means such

expenditure on railways as it has pleased Government, under the queer system adopted by them, to debit to capital account; for instance, it does not, although it ought to, include either the cost, running into crores of rupees, of lands given free to the railways by the State, (paragraph 2 of Part II of the report), or the losses incurred in raising capital for railways from time to time (foot-note at pages 276–77 of the Finance and Revenue Accounts of the Government of India, for the year 1920–21). *Capital at charge* is even less than this so-called capital outlay, since it is arrived at by deducting from the capital outlay the amounts paid every year on account of annuity and sinking funds which go to wipe out a portion of the original cost of certain railways purchased by the State from the old guaranteed railway companies (paragraph 7 at pages 278–79 of the Finance and Revenue Accounts of the Government of India for the year 1920–21). Capital at charge is, therefore, an annually diminishing figure, except for any additional expenditure. It will be noticed from paragraph 2 of Part II of the report that while the total capital expended on State-owned railways upto the 31st March 1922 shews an increase of Rs. 98·84 crores, the increase in the capital at charge is only Rs. 82 crores. The difference of Rs. 16·84 crores represents capital redeemed or wiped out by payments from revenue by the operation of annuity and sinking funds. When the specific liabilities on account of purchased railways for which these funds were started are fully discharged, the total reduction in the capital at charge will be no less than £95,022,344 or Rs. 142,53 crores at Rs. 15 to the pound (pages 284–85 of the Finance and Revenue Accounts of the Government of India for

the year 1920-21.) As regards *capital invested by the State in railways*, it means *all* monies expended by the State in creating the property and chargeable on a commercial basis to capital irrespective of the source from which the expenditure was actually incurred.

RECOMMENDED BASIS UNSOUND.

In considering the question of the proper basis to adopt for the purpose of fixing a standard for measuring the remunerativeness of the railway property, that is, whether the monies invested from the revenue resources of the country should be taken into account or not, it is necessary to go into the merits or demerits of the policy, hitherto followed by Government, of taxing the people for capital expenditure instead of allowing the money to fructify in their pockets. We have to face the facts as they stand. Rightly or wrongly large sums of money have in the past been spent from the proceeds of taxation (euphemistically called surplus revenue) in liquidation or avoidance of productive public debt connected with the construction and equipment of railways on their purchase. Part of the railway property of the State has thus been acquired by the State not for nothing but in return for very substantial sums of money, and yet when judging of the paying extent of this commercial undertaking, Government have always excluded these sums in working out the return yielded by the property as though part of it was acquired free of cost. The Committee also has, through inadvertence or otherwise, suggested the same method being followed in fixing the minimum return for railways.

It proposes that the return should be fixed with reference to the capital at charge, that is, with re-

ference to a figure which is less than the total of the monies spent in creating the railway property. This figure, as shewn above, has a constant element of annual reduction which, as years roll on, serves to increase the hiatus between the assumed and the actual values of that property. Railways are professedly a commercial undertaking while the procedure suggested is a breach of all commercial principles. The procedure is, moreover, unjust to the tax-payers, who, as pointed out by Sir Basil Blackett in paragraph 16 of his budget speech of March 1, 1923, constitute a class by itself of the State's creditors. The difference between them and its other creditors is that the latter lend their money to the State out of their own free will, can demand interest thereon and are entitled to direct repayment at the end of a fixed period or at the convenience of the State; while the former have to lend their money compulsorily and can demand neither interest nor repayment. There is, however, nothing in this difference to justify the two classes of loans being treated differently, in so far as the point under discussion is concerned, when such loans are used for commercial undertakings like the railways. Sir Basil Blackett, in the speech referred to, brought out very clearly the dangers which continued deficits bring in their train. Equally there are dangers in continued fat surpluses, although they do not perhaps come so quickly or become so immediately embarrassing to the State. The late Mr. Gokhale on every suitable occasion continued to press these potential dangers on the attention of the Government. One such occasion was in 1906, when, speaking on the Financial Statement for 1906-07, he said :—

"My Lord, the surpluses of the last few years–rendered possible by the artificial enhancement of the value of the rupee and realised, first by maintaining taxation at a higher level than was necessary in view of the appreciated rupee, and secondly, by a systematic under-estimating of revenue and over-estimating of expenditure—have produced their inevitable effect on the expenditure of the country. With such a plethora of money in the Exchequer of the State, the level of expenditure was bound to be pushed up in all directions. Economy came to be a despised word and increased establishments and revised scales of pay and pensions for the European officials became the order of the day...The evil of an uncontrolled growth of expenditure in all directions in the name of increased efficiency was not checked and the legacy must now remain with us.

Government did not learn the lesson and the consequences are before us to-day.

These continued deficits are themselves a danger proceeding from continued fat surpluses. The war and its after-effects have only accelerated the advent of a danger which we were inviting by our unsound methods. What is true of the general financial condition of the country is also true of the financial condition in which the railways now find themselves. The surpluses in the general revenues were not true surpluses or windfalls, but forced surpluses. Similarly railway profits were not true commercial profits but 'faked' profits, in so far as they were arrived at by a progressive under-stating of the real capital value of the railways. These so-called profits have encouraged increased expenditure until the progressively increasing expenditure, accentuated by other forces, has outstripped the apparently increased profits and we now find our railways an unremunerative business.

THE TRUE BASIS.

The time has, therefore, now come to correct the self-deception by which we arrived at the present *impasse*. One of the necessary correctives is to adopt a truly commercial basis for the purpose of laying down the minimum return to which we are to work up, and this can be done, not by adopting the basis of capital outlay, or of capital at charge, but of capital invested by the State in railways as defined by us. It is true that Government have kept no account of some of the important items of expenditure such as that incurred on lands given free to railway companies. The Committee in paragraph 2 of Part II of its report says that particulars of this expenditure are not available. We do not really see why this information, or at least a substantial part of it, should not be reclaimable from the old accounts. But even if this cannot be reclaimed, there is no reason why a close approximate estimate should not be made of all such expenditure for the purpose of starting a real genuine commercial account. It would, in our opinion be quite safe to assume for rough calcuation that the actual monies invested by the State in railways amount to no less than, say Rs. 700 crores up to the end of 1922-23. In order that a net gain of Rs. 85 crores may accrue to the Central revenues, the railways must, as shown in our last article, yield net receipts *excluding* all interest annuity and sinking fund charges, amounting to Rs. 34,35,40,000. This would give a return of 4·91 per cent. on the basis of capital invested by the State in railways, that is, Rs. 700 crores as estimated by us. Having corrected the error in the basis on which the standard minimum return should be calculated from capital at charge to capital in-

vested by the State in railways, we shall, in our next article, examine the *manner* in which that return is proposed to be calculated by the Committee. (June 7, 1923.)

III—A Curious Omission.

In the previous article we showed :—

(i) that the correct basis for fixing the standard minimum return was the amount of capital invested by the State in railways and not the amount of capital at charge as suggested by the Committee; and

(ii) that on this basis the standard minimum percentage required to produce, *after allowing for all interest, annuity and sinking fund payments*, a net gain of Rs. 8·5 crores to the Central revenues was equal to 4·91%.

The words italicised by us are borrowed from the opening sentence of a sub-paragraph of paragraph 5 of Part II of the Committee's report. They mean that the percentage is calculated on net receipts *excluding* all interest, annuity and sinking und charges. All these charges are at present held to be part of the total revenue expenditure of railways and subject to the proviso that they are all legitimately debitable to revenue, we see no reason for such exclusion. In a commercial concern the right course is to calculate the return *after* meeting all charges on revenue account and as such the return should be fixed so as to yield a clear profit of Rs. 8·5 crores on Rs. 700 crores, the capital which according to our estimate has been invested by the State in railways. According to this the standard minimum return should be fixed at $\frac{8{\cdot}5 \times 100}{700} = 1{\cdot}22$ per cent.

We shall now take up the examination of the legitimacy of items which together are at present held to constitute such expenditure. It will be seen from paragraph 5 of Part II of the report that in arriving at the net gain to the Central revenues of Rs. 8·5 crores, the Committee has taken all annuity and sinking fund charges as items of railway expenditure on revenue account without question. We are surprised that a Committee composed of able business men did not challenge the legitimacy of these charges. The Committee appears, from its remarks in paragraph 6 of Part II of the report, to have laid under contribution the Administration Report on Indian Railways in 1921-22. The very first chapter of this report contains an integral paragraph which gives a history of the annuity and sinking fund payments and concludes by stating that the existing method of charging these payments to railway revenue is correct, the one authority or argument advanced in support being the *ipes dixit* of the Secretary of State. In a technical matter of allocation of this kind, an expression of the Committee's opinion from the point of view of commercial accounting would certainly have been very valuable. But the Committee is silent on the question and one wonders whether this is due to any direction or advice which the Committee may have received from Whitehall or Delhi, or to mere inadvertence.

TRUE WORKING COST OBSCURED.

The impropriety of charging the railway revenue account with the annuity and sinking fund payments has been fully discussed and established at pages 17-25 of The Servants of India Society Pamphlet No. 8,

'Railways and the Budget.' Briefly, these annuities are in repayment of a portion of the purchase price of the railways taken over by Government from the old guaranteed railway companies and as such have been used by Government as a mode of raising loans for the purpose in accordance with the recognized practice of Governments. They are periodical payments amounting to a certain annual sum and continuing for a definite period, so that at the end of the specified period the annuitants may get back their principal, with compound interest for periods during which repayment of portions of the principal was deferred. Each year's payment on account of annuities thus consists partly of interest on the outstanding balance of the principal and partly as an instalment of the principal. This yearly instalment is therefore a clear charge against the capital and not against the revenue account of railways. As regards the sinking fund payments, the matter is very simple. The whole of the amount paid annually into the Sinking Fund is in redemption of debt incurred in connection with the purchase of railways and is also therefore a clear charge against the capital and not against the revenue account of railways. Apart from this, it is doubtful whether it is wise to utilise a sinking fund for the purpose of liquidating non-terminable loans bearing low rates of interest at a time when large terminable loans are being raised at considerably higher rates of interest. In this connection it is worth noting that the Government of India have already admitted that "It is economically unsound to pay off old unproductive loans with one hand while contracting new productive loans with the other." (Paragraph 4 at page 278 of the Finance and Revenue Accounts of the Government of India, for the year 1920-21.)

Reverting to the impropriety of charging the annuity and sinking fund payments to the railway revenue account, it is pertinent to mention here that the Committee on Indian Railway Finance and Administration of 1907-08 presided over by Lord Inchcape (then Sir J. L. Mackay) himself supports us on our conclusion that the practice adopted by Government of charging them to the railway revenue account understates the true revenue derived by the State from the railways. We give below an extract from paragraph 4 of the report of that Committee:—"The net profit to the State, after meeting all charges for interest on capital, annuities for the purchase of lines from Companies, shares of surplus profits payable to Companies, &c. was in each year as follows:—

			£.
1902-03	...	...	228,949
1903-04	...	...	860,669
1904-05	...	...	2,105,438
1905-06	...	...	2,001,966
1906-07	...	...	2,313,541

These figures understate the true net revenue derived by the State from the railways, in as much as a portion of the charge under the head of "annuities for the purchase of railways" represents repayment of capital. The amount of capital redeemed in this way by a charge against the earnings of the railway is shown in the accounts of the Government of India to have been as follows during the last five years :—

			£.
1902-03	...	...	610,181
1903-04	...	...	630,997
1904-05	...	...	633,452
1905-06	...	...	727,695
1906-07	...	...	752,135

The real net profit to the State, after meeting all charges properly attributable to revenue, was, therefore, in 1906–07 upwards of 3 millions sterling'' (The latter set of figures represents not only the capital portion of the annuity payments but also the sinking fund payments).

In addition to these, there are two other items of expenditure which also constitute an illegitimate charge against working expenses and therefore against revenue, viz. contributions to the Discount Sinking Fund (about which, by the way, the Government of India do not seem to keep adequate information—vide reply to unstarred question No. 109 at page 1367 of the Legislative Assembly Debates, Volume III) and charges on account of lands supplied free of cost to Branch Railway Companies and District Boards. The Discount Sinking Fund has been created for redemption of the debt incurred in excess of the money raised in respect of the India 3 per cent. Stock issued in connection with the purchase of the Oudh and Rohilkhand Railway. (Note (*d*) at foot of page 143 of the Finance and Revenue Accounts of the Government of India, for the year 1913–14.) The expenditure is in connection with the purchase of the railway and not in connection with its working and cannot go against working expenses. As regards the expenditure on account of the purchase of lands made over free of cost to Branch Railway Companies and District Boards, we have already shewn at page 16 of the Pamphlet referred to, supra, that it is unfair to charge this expenditure against revenue working expenses of railways. The expenditure is covered by a valuable asset and every asset must be fully reflected in the capital account of a commercial

concern like the railways. We are not at all impressed by the argument advanced in paragraph II of Chapter I of the Railway Administration Report for 1921-22 that the lands being a free gift their cost must be met out of the railway revenues. They are not a religious gift, but a so-called gift made deliberately in connection with a commerial concern by a commerial department. It is an inducement to people to take up railway enterprises which are likely to be beneficial to the State. The State gives the lands free as a consideration for some material gain which it expects thereby to secure to itself. In short, it is only another form of investment and as such must be a debit to the capital and not to the revenue account of Government.

The inclusion in the railway revenue account of every one of these four items, namely,

Contribution to the Sinking Fund

" Discount Fund

Portion of annuities representing payment of capital.

Cost of lands given free for railway purposes has the effect of understating the profits (or overstating the losses when there are losses). There is another item which by reason of its exclusion from the railway revenue account is calculated to give the reverse result of overstating the profits (or understating the losses when there are losses). It will be remembered that in our last article we pointed out that large sums of money which we have assumed to be in the neighbourhood of Rs. 136 crores have been spent out of current revenues on capital works. Strictly speaking, therefore, the railway revenue account should include a debit on account of

interest on this amount in order to bring out correctly whether our railway business is improving or deteriorating from year to year.

It is clear from what we have said so far that the fixed minimum return should, so far as working expenses of railways are concerned, take no account of the payments made on account of sinking funds, the portion of annuities representing repayment of capital and the cost of lands given free for railway purposes ; it must, however, take into account the interest charges which would have been due if the monies which were used for capital railway works out of current revenues had to be borrowed.

REAL COMMERCIAL DEFICIT

Adopting this method, that is, treating the railways as a stictly business concern, the real railway revenue expenditure for 1922-23 comes to Rs. 97,51,70,000 as shown below and not Rs. 93,82,62,000 as shown in the last column of the tabular statement in paragraph 4 of Part II of the Committee's report.

	Rs.
Workidg expenses	66,83,85,000
Surplus profits	68,07,000
Real interest on debt, i. e., excluding Rs. 93,000 on account of contribution to the Discount Sinking Fund	17,02,69,000
Interest portion of annuities in purchase of Railways, i. e., excluding Rs.1,21,70,000 representing repayment of capital ...	3 81,93,000
Interest on capital contributed by Companies	3,32,04,000
Subsidised Companies *minus* Rs. 6,18,000 spent in acquiring lands to be given free for railway purposes	4 62,000
Miscellaneous Railway expenditure ...	34,50,000
Interest at 4 per cent. on Rs, 136 crores spent out of current revenues on capital work	5,44.00,000
Total Expenditure	97,51,70,000

Deducting the total receipts of Rs. 92,33,23,000 from the total expenditure of Rs. 97,51,70,000 we get a deficit of no less than Rs. 5,18,47,000 and not Rs. 1,49.39,000 only. This is the result of our much boasted commercial working of the Indian Railways ! Any way, it is clear that in order to make our railways a source of gain to the Central revenues we must rely on the combined process of reduction in working expenses and increase in traffic receipts.

In the light of our examination of the manner in which the standard minimum return should be fixed in order that it may represent a truly commercial return, it is necessary to make a further alteration in the percentage of 1'22 worked out at the beginning of this article. The amount which we have debited to working expenses on account of interest charges on the sums spent out of current revenues on capital works, so as to place our railway accounts on a commercial footing, gives a credit to the Central revenues of Rs. 5'44 crores. The balance required to make up the desired net gain to the Central revenues of Rs. 8.5 crores is, therefore, Rs. 2'06 crores ; and in order to obtain this amount we must fix the return at $\frac{2.06 \times 100}{700}$ = 0'29 per cent. (June 14, 1923.)

IS IT A PROPER FUNCTION OF THE RAILWAY BOARD ?

IN paragraph 12 at page 65 of its report, the Indian Retrenchment Committee says :—

> It was represented to us by one of the Agents that a considerable portion of the expenditure on his Railway was for renewals which were in his opinion absolutely unnecessary and that 60 miles of line to be renewed in 1923-24 and a similar milage in 1924-25 could easily be strengthened at about one-third of the cost to last a further 15 or 20 years.... We consider that the control exercised by the Railway Board should ensure that adequate financial provision is made for renewals, and that it is not a proper function of the Board to insist on expenditure against the advice of the Manager and Engineer.

No business man would quarrel with this proposition. If, as in the particular case cited by the Committee, the divergence of opinion as to the proper time for renewal is so wide as between the immediate present and 15 or 20 years hence, the *prima facie* conclusion would be that the difference represented the difference between professional capacity and professional incapacity to judge correctly, and that the possessor of this incapacity must go. But as a matter of fact owing to the abnormal relations set up by the peculiar terms of the contracts subsisting between Government and the companies which are employed to manage our property, the difference is due to a conflict of interests. The G. I. P. Railway Company did not get a pie beyond its guaranteed interest from the working of the railway during 1920–21, 1921–22, and 1922–23, owing apparently to the heavy expenditure on renewals, leaving no profits in which it could

share according to the terms of its contract: nor is the Company going to get any profits from the working of the railway during 1923–24, 1924–25, and 1st April to 30th June 1925, when its contract expires, if the contemplated scale of expenditure on renewals is maintained. ("History of Indian Railways," and page 65 of the Railway Revenue Budget for 1923–24.) In order best to illustrate how the conflict of interests arises, we shall take the concrete figures of the working of the railway during the years 1919–20 and 1920–21, one of gain and the other of loss to the State. The net earnings during the two years were respectively Rs. 4,70,91,731 and Rs. 2,91,33,269, as shown below:

	1919–20. Rs.	1920-21. Rs.
(1) Gross Earnings ("History of Indian Railways")	12,63,46,982	12,81,81,819
Ordinary Expenses	Not known	9,23,58,613
(3) Programme (renewal) Charges	Not known	66,89,937
(4) Working Expenses (Account No. 52, Finance & Revenue Accounts,)	—7,92,55,251	—9,90,48,550
(5) Net earnings. Item 1 *minus* item 4	4,70,91,731	2,91,33,269

According to the contractual terms relating to the distribution of profits, as given in the "History of Railways," the net earnings (item 5 above) are applied:

(a) in payment to the Secretary of State of the sum of Rs. 2 crores;

(b) in repayment to the Secretary of State of all interest on money raised after 30th June 1900 by the Company or provided by the Secretary of State.

Any surplus to be divided between the Government and the Company in the proportion of 19/20ths to the former and 1/20th to the latter so long as the Company's capital remains at £2,575,00. If the Company's capital is increased, the Company's share of the surplus is to be proportionately increased, subject to a maximum of 1\10th. Out of the amount thus received, Government have to pay the guaranteed interest at 3 per cent. per annum on the Company's capital of £2,575,000, annuity charges amounting to £1,268,511 and interest on monies borrowed for the railway. When, as in 1920-21, the net earnings fall short of the total of the items (a) & (b) above, Government have to bear the loss and pay from their own pocket the interest guaranteed to the Company, their dues to the annuitants and interest to their creditors.

Thus, out of the net earnings of 1919–20 and 1920-91, Government received Rs. 4,62,26,183 and Rs. 2,91,33,269 respectively, as shown below.

	1919–20	1920–21
	Rs.	Rs.
(6) Lump-sum due to Government annually	2,00,00,000	2,00,00,000
(7) Interest due to Goverument on monies advanced to the Co.	97,80,771	1,05,32,324
(8) Total due to Government	2,97,80,771	3,05,32,324
(9) 19/20ths of balance of Rs. 1,73.10,960 (Rs. 4,70,91,731—2,97,80,771) Item (5) *minus* item (8)	+ 1,64,45,412	
(10) Excess over net earnings not recoverable from the Co. Item (8) *minus* item (5)		—13,99,055
(11) Total amount received by Government	4,62,26,183	2,91,33,269

Against these amounts Government have to meet liabilities to their creditors for interest on monies borrowed for the railway. These have, during 1919-20, reduced the earnings of the Government from Rs. 4,62,26,183 to Rs. 82,18,823 and during 1920-21 converted the earnings of Rs. 2,91,35,269 into a loss of Rs. 34,80,272, as shown below :

	1919-20. Rs.	1920-21. Rs.
(12) Total amount received by Government, Item (11)	4,62,26,183	2,91,33,269
(13) Guaranteed interest at 3 per cent. on the Co.'s share capital of £2,575,000	11,58,750	8,97,515
(14) Interest on debt	1,78,20,960	1,69,78,057
(15) Annuity payment	1,90,27,650	1,47,37,969
	3,80,07,360	3,26,13,541
(16) Net gain to Government	82,18,823	
(17) Net loss to Government		34,80,272

It will be clear from the transactions explained above that the Company shares profits, if and when any, with Government, but not losses. These latter have all to be shouldered by Government alone, presumably because at the time the contract was made (as recently as 1900) due consideration "to the market value of the money and to the value of the property which the Company was taking over and the value of services which Government was receiving" of which the Chief Commissioner for Railways spoke at page 3334 of the Legislative Assembly Debates, Vol. III. required that the losses, if and when any, should not be shared by the Company, but only the profits.

Secure in its guarnteed interest, secure further in not being called upon to meet its liability for

interest on Government advances to the extent the liability exceeds the net earnings, the Company is not interested in reducing losses when profits are impossible; but it is deeply interested when it can earn profits for itself—a result not inconsistent with a simultaneous net loss to Government–in any year by postponing renewals. None of the other items of expenditure lends itself to so easy a manipulation. The recent enhancements in rates and fares have rendered it easier for the companies to earn profits by postponing renewals when such renewals can be deferred without detriment to safe and reasonably efficient service. The interests of Government, on the other hand, require that when a net gain to the State from the working of a particular railway is impossible, the pace at which renewals are carried out should be slowed down so as to avoid any unshareable loss, whenever and wherever it is possible so to do. This is how the conflict of interest arises. For instance, during 1920–21 it would have been to the interest of the G. I. P. Railway Company to postpone the whole of the expenditure of Rs. 66, 89, 937 on renewals so as to produce profits in which it could share while the Government's interests would have been served by limiting the expenditure to Rs. 44,99,183 in place of the actual expenditure of Rs. 66,89,937. This would have entirely avoided the loss of Rs. 34,80,272 to the State. There would have been neither gain nor loss to the State, although, paradoxical as it may appear, the Company would have made a clear profit of Rs. 1,09,537 over and above its guaranteed interest. The phenomenon of the Company making a profit when the State does not make a pie's gain is an incident of our contract making and we have the assurance of the Chief Commissioner for Railways at page

3334 of the Legislative Assembly Debates, Vol. III that—

> "After the most careful consideration every one of these contracts has been prepared and in no case is the Company obtaining a larger share of the profits than is its due...... We are told that we must run our railways on a commercial basis. One of the first principles of sound commerce is to honour our contracts, and we cannot avoid these demands which have been calculated, or will be calculated, on the actual net earnings received by the Companies."

In this connection it is relevant to quote a portion of paragraph 6262 at page 296 of Vol. III of the Indian Railway Committee of 1920-21.

> "The Chairman pointed out that the financial interests of both the State and the companies could not really be altogether identical. He instanced the case of the G. I. P. Railway Company, whose contract will expire in a few years, remarking that it is surely to the interest of the G.I.P. Railway to spend as little as possible on maintenance, and to inflate the net earnings of which they get a percentage during the short residue of their term, whereas the interest of the Governmet is that the line should be adequately maintained.........Mr. Bell admitted that, where there is a third party there is sure to be a divergence of interests. He explained that the Board's statement that the financial interests of both companies and State are identical was a general one, but that there are special cases in which they do differ to some extent."

What is said here applies with equal force with regard to renewals being avoided when such renewals are not an absolute necessity from the point of view of safe and reasonably efficient service. We cannot, therefore, blame the Company for the attitude it took. What, however, we cannot understand is that our commercial experts of the Railway Board and Chief Commissioner for Railways, knowing that the G. I. P. Railway has brought in losses aggregating to Rs. 4½ crores during the three years ending 31st March 1923

should have insisted on expenditure on this scale with the actual prospect of a net loss to the State of no less than Rs. 62,28,000 from the working of this railway—*vide* table at page 63 of the Retrenchment Committee's report. The agent says that in his opinion the renewals proposed by Government are absolutely unnecessary for a period of 15 to 20 years. The defence made by the Hon. Mr. Innes at page 3318 of the Legislative Assembly Debates, Vol. III, does not categorically deny the accuracy of this opinion. The only argument that has any air of plausibility is that, as contended by the Chief Commissioner for Railways, the renewals are part of a programme framed with a view to avoiding the necessity of having to renew an unduly large portion of the line in any one year, which would mean a large financial outlay and considerable interference with traffic working. But, a programme which, as pointed out by the Committee in paragraph 12 at pages 65 and 66 of its report, throws on the State additional expenditure out of money raised at over 6 per cent. in order to avoid, 15 or 20 years hence, a possible delay to traffic—which in the opinion of those responsible would never arise, and which moreover threatens to continue the losses which the working of the particular railway has been entailing on the State when it can least afford to bear them–carries with it its own condemnation. The financial condition of the State demands that, as far as possible, expenditure on this and other railways similarly circumstanced should be so regulated as to bring in no losses to the State. In paragraph 6 at page 62 of its report the Indian Retrenchment Committee says, "In view of the present financial circumstances and the large capital expenditure which is now being incurred on improv-

ing the railways, we consider that the overtaking of these arrears (of maintenance and renewal) might well be postponed on railways not able to earn sufficient receipts to pay interest and sinking fund charges". In the next paragrash it says, "The overtaking of arrears must necessarily wait until the financial position improves," the underlying principle as declared in paragraph 10 being "that the relation of working expenses to revenue should be so adjusted as to provide an adequate return on the capital invested." The interests of Government, in contradistinction to those of the companies, require that the expenditure should be so regulated as to bring in no losses to the State, unless of course full provision is consistent with an adequate return on the capital invested. And then in paragraph 12 the Committee says, "We consider that the control exercised by the Railway Board should ensure that adequate financial provision is made for renewals, (that is, the money so earmarked should be debited to working expenses even if it is not used in whole or in part) and that (subject of course to this condition of adequate financial provision) it is not a proper function of the Board to insist on expenditure against the advice of the Manager and Engineer." It is impossible to see how this position can really be assailed. The Hon. Mr. Innes at page 3318 of the Legislative Assembly Debates, Vol. III said, "I should like to challenge the statement that it is not the proper function of the Railway Board to insist on expenditure against the advice of the Manager and Engineer of a railway." It is clear that when he challenged this particular statement be overlooked the preceding statements of the Committee in their bearing on the statement challenged (August 9, 1923).

IS THIS THE TIME TO BUILD MORE RAILWAYS ?

REFERRING to the capital programme of Rs. 150 crores for the rehabilitation of the railways during the five years ending with 1926-27, the Indian Retrenchment Committee, in paragraph 31 at pages 77 and 78 of its report, says :

> " A very substantial portion (amounting to Rs. 66.92 crores, of this capital has been allocated to unremunerative lines. We are informed that there are many remunerative schemes such as the opening up of lines for the development of mineral resources, the electrification of suburban lines, etc., which at present cannot be taken up owing to the difficulty of obtaining capital. This being so, we cannot believe that it is legitimate under any circumstances to put Rs. 67 crores of capital, borrowed at a high rate of interest, into lines which are already a heavy drain on the resources of the State. If the full amount of the capital cannot immediately be employed on remunerative works on open lines, it would, in our opinion, be a matter for consideration whether some portion of it could not with advantage be devoted to the construction of new lines promising an adequate return."

Any idea of constructing, in the present circumstances, new lines of railway not designed to improve the position on existing railways is to be strongly deprecated and in view of the space at our disposal we shall set out only a few of the principal grounds on which the objection rests.

The first ground is that expenditure on new railway development would be in direct violation of the recommendation made by the Indian Railway Committee of 1920-21, to the effect that railway extension should be postponed until the existing railways are fully rehabilitated and improved. The

recommendation of the Committee is so unequivocal and emphatic, and the reasons on which it is based are so convincingly described that we need make no apology for reproducing below the relevant portions from the report of that Committee.

"244. The need for large capital expenditure for fresh railway development is great, and will continue as far as we can see for an indefinite number of years to come. But the question to-day is not of development, but of putting the existing railway system into such a condition as to be able to handle with reasonable efficiency and despatch, not the traffic of the future, but the traffic which at present is clamouring for accommodation that the railways cannot give. In the present circumstances we feel that, broadly speaking, future development must wait. But the rehabilitation and bringing up to date of the existing system in the shortest possible time cannot in our judgment be postponed. We believe that having regard to the economy of operation which may be expected once the railway machine is relieved of its present intolerable overloading and is able to receive and handle economically the traffic actually in sight, new money spent for this purpose will pay for itself directly. It is impossible to put into figures the loss which Indian trade and industry are suffering from the crippled condition of the railways; nor can the Government afford to ignore the discredit which is being brought upon the railway administration by the present conditions, and the bitter feelings aroused in millions of passengers by the overcrowding to which they are now subjected."

"245. We therefore consider that while new development should, as far as possible, be postponed to a more convenient season, the money required to put the existing lines into a position where they are capable of dealing adequately with existing traffic should be raised, even at to-day's price, as soon and spent as fast as the railways can put themsevles into a position...to use it advantageously."

The second ground is that the appropriation to new development of the balance of monies remaining unspent out of the annual grant of Rs. 30 crores meant

primarily for existing lines, would constitute, in substance if not in form, a breach of one of the fundamental conditions connected with the guaranteed grants of Rs. 30 crores a year for five years. This condition, in the words of the Railway Finance Committee of 1921, is that " there should be no lapse of money voted for any one year but not spent within that year : such sums should be carried on to the credit of the railway administration up to the limit of the total amount fixed for the quinquennium. " The " lapse " here referred to means surrender of the unspent monies and, in so far as the rehabilitation and improvement are concerned, it makes little difference whether such surrender is to the Treasury or to New Development. The fact remains that the money borrowed by pledging our present credit will all be spent and that for the completion of the necessary rehabilitation and improvement of the existing railways we shall have to depend on our future credit to a larger extent than would otherwise be necessary. It is true that the Railway Finance Committee, in view of the urgent necessity for improving the present coal position, has itself recommended the construction, out of the annual grant of Rs. 30 crores, of feeder lines which would have the result of opening up new coalfields, but this is by way of an exception to the general rule. This recommendation has been accepted by the Legislative Assembly. According to the statement referred to at page 1021 of the Assembly Debates, Vol. III, the total cost of the construction of the five coal lines mentioned in paragraph 9 of the Explanatory Memorandum on the Railway Budget for 1923-24 amounts to Rs. 3. 22 crores and the average return to 5·39 per cent. with prospects of a larger dividend with the development of the coalfields. It

is to be hoped that this return will not be falsified and that the construction will not constitute a form of subsidy to the coal trade at the expense of railway funds, in the attempt to increase the sources of indigenous coal supply and thereby minimize the dependence of Indian railways on the more expensive foreign coal. Railway estimates appear to have a habit of falsifying themselves to an inconvenient extent. For instance, according to the "History of Indian Railways," and the statements referred to in the replies given in the Assembly to unstarred questions No. 231 of January 31, 1922, No. 247 of February 6, 1922 and No. 4 of September 6, 1922, the Katwa Barharwa Railway was expected to earn nearly 6 per cent but never earned more than 3¾ per cent.; the Dasghara Jamalpurganj promised a return of 5.33 but never gave more than 2·91 per cent.; the Ahmadpur Katwa was estimated to yield 4·60 per cent, but the actual yield never rose above 2·36 per cent.; the Bankura Damodar River was expected to give 5 per cent. but never gave more than 2·32 per cent.; the Burdwan Katwa was calculated to produce 4·84 per cent. but the actuals show an average return of only 1·84 per cent.; the Trans-Indus promised the bounteous return of 7½ per cent. but in actual performance yielded 0·68 per cent. in 1913–14, 0·20 per cent. in 1916–17 and regular deficits in other years, until in 1920–21 the deficit amounted to over Rs. 18¾ lakhs; the Arakan with no traceable promise of a return is loaded with guarantees aggregating to 5½ per cent., but in actual working it has always shown deficits which now amount to over Rs. 50,000 a year; while in respect of many other new railways no record at all is kept of the actual returns obtained and this makes it impossible to ascertain how the actuals

compare with the estimates. It is very necessary that such records should be maintained at least for the first five years after the lines have started working and we hope Government will do this in regard to the lines which may be opened hereafter.

The third ground is that the acceptance of the recommendation made by the Indian Retrenchment Committee would mean a deliberate return to the oft-condemned method of hand-to-mouth railway finance. The late Sir Thomas Robertson in paragraphs 154 to 160 of his " Report on the Administration and Working of Indian Railway, " advocated the creation of a Railway Fund in which monies not required for immediate use would accumulate and be available for use as required. In paragraphs 1143-1144 of the minutes of evidence given before the Mackay Committee of 1907–08, Lord Rothschild recommended raising money when times were favourable, even though the programme of works might not be such as to require the whole to be spent in any one year, and said that he would not hesitate, if the moment were favourable, to bring out a larger loan than might be necessary for that particular year. This recommendation was endorsed by the Mackay Committee, who in paragraph 19 of their report said:

> " It may be possible in some years to obtain larger sums than are required to provide for expenditure at the annual rate which we contemplate, while in other years there may be strong reasons for reducing the loans. We assume that the Secretary of State will, as far as possible, take advantage of periods of easy money to raise funds in excess of his immediate requirements, thus minimising the risk of having to reduce the expenditure at a time of stringency. "

The Indian Railway Committee of 1920–21, in paragraph 245 of its report invited attention to this

recommendation and observed: "This advice was not followed during the period of cheap money before the war. We think the Government will do well not to forget it when market conditions are again favourable." It is true that the surplus money which the Government will have on their hands after meeting open line capital expenditure is not due to larger amounts having been borrowed by deliberate design, but is due to heavy retrenchments found necessary in the interest of the economic rehabilitation of our railway business. The fact, however, remains that Government now have a chance of building up a reserve of capital funds and it would be sheer folly to throw this advantage away by undertaking schemes of new development not calculated to ease the situation on the existing railways. Further it must be remembered that the expenditure on unremunerative railways which is being curtailed is being merely postponed and will have to be incurred later on; meanwhile there is no guarantee that it will be possible to maintain the present rate of borrowing. In fact, the large amount which it has been found possible to borrow this year would not have been available according to the Government version, if special steps had not been taken to support credit by the unpopular doubling of the salt tax and the equally unpopular guarantee given to the Imperial Bank of India against any losses arising from the Bank undertaking to pay 50 per cent. of the amounts due to depositors in the Alliance Bank of Simla. But it may not always be possible or politic for Government to have recourse to similar expedients in the future. (August 23, 1923).

II.

THE fourth ground of objection to spend State monies on building new lines of railway in present

circumstances is that it is unwise to build new lines, however remunerative, when the price of money, the price of labour and the price of stores are all yet so high and thereby to saddle the lines permanently with heavy capital cost and heavy recurring charges on account of interest. The same objection *prima facie* should apply also to capital expenditure on existing lines; but in the matter of rehabilitating these lines there is no choice and the objection has therefore to give way to public convenience. Even in regard to such of the existing lines as are at present unremunerative, further capital expenditure has been recommended by the committee to be postponed until they begin to yield an adequate return on the capital already invested. Similarly all the State railways taken together being on the whole unremunerative at present, any further capital expenditure which it would be necessary to incur in building new lines must also be postponed at least until the railways as a whole have been restored to due solvency. The only merit of borrowing large sums of money in excess of what is actually required for open lines by pledging our full credit and then spending the excess on constructing new lines is that it will give additional relief to the unemployed in the countries from whom we will have to buy our materials and will secure a proportionately enlarged market to the countries on whom we are dependent for our supplies of materials which we shall constantly require for the working of those railways and for their maintenance, repairs and renewals; but railways are *ex hypothesi* a commercial and not a philanthropic undertaking and it is therefore impossible to take that factor into consideration. It is no doubt possible to justify the

proposal to spend on new lines on the specious theory of 'the long view', but there are times when the longest view is the shortest view and the present is obviously such a time.

The fifth ground is that it is unbusinesslike to bring new lines into existence since, as pointed out by Mr. Hindley, now Chief Commissioner for Indian Railways, "there is no object in constructing further extensions when the main lines are incapable of carrying the existing traffic offering, and, until the capacity of the present lines have been brought up to requirements", as such extensions would only bring in additional traffic and hamper the already overloaded main line routes. (Reply to question No. 18 at page 70 of Vol. IV of the report of the Indian Railway Committee of 1920-21.) In defiance of this obvious consideration Government have, during a long term of years, been following the practice of spending money on new lines of railway to the comparative neglect of the needs, or gradual starvation of lines already opened. The process was bound sooner or later to result in a state of affairs where the accumulatiou of arrears on open lines would make it impossible to overtake them within a reasonable period of time. The war has only accentuated the accumulation of arrears and not created it. The creative cause had been there long before the war. As a result of the inquiries made during the closing year of the last nineties it was found that for many years expenditure on open lines was restricted to permit of the construction of new lines ; meanwhile the old lines had outgrown the facilities with which they were provided. It was, therefore, decided in 1900 that open lines should have the first claim on the amount of money available for railway capital expenditure, railways already under construction

coming next and lastly entirely new projects. (Paragraph 92 of the "Report on the Administration and Working of Indian Railways" by the late Sir Thomas Robertson.) The one complaint during the 21 years succeeding the date of this decision has been that the funds that could be made available for railway capital expenditure were wholly insufficient whether for open lines or new lines, and yet as will be seen from the distribution given below, out of the total expenditure during that period of about Rs. 265 crores, the expenditure booked as against new lines amounts to no less than Rs. 65 crores, the balance of Rs. 200 representing what is supposed to be spent on open line improvement.

[In Crores of Rupees].

Year ending 31st March.	Open Lines.			New Lines.	Grand Total.
	Rolling stock.	Other heads.	Total.		
1902	Information not available.		3·52	5·35	8·87
1903			4·82	5·24	10·06
1904			5·59	3 98	9· 57
1905			5·03	5·75	10·78
1906			7·68	5·82	13·50
1907	3·83	5·09	8·92	5·56	14·48
1908	6·03	4·96	10·99	4·51	15·50
1909	6·66	6·25	12·91	2·19	15·10
1910	6·25	2·60	8·85	3·75	12·60
1911	3·00	4·50	7·50	3·67	11·17
1912	3·21	4·38	7·59	4·28	11·87
1913	3·71	6·99	10 70	4·14	14·84
1914	7·31	9·29	16·60	1·86	18·46
1915	9·08	6·72	15 80	1·35	17·15
1916	4·06	1·74	5·80	0·94	6·74
1917	0·72	1·14	1·86	1·11	2·97
1918	0·90	1·49	2·39	1·40	3·79
1919	0·71	5·02	5 73	0·51	6·24
1920	4·56	8·72	13·28	0·21	13·49
1921	10·15	12·91	23·06	1·02	24·08
1922	10·04	11·28	21·32	2·11	23·43
Total ...	...	...	99·94	64·75	264·69

The figure of Rs. 200 crores, however, exaggerates the real extent of the actual additions or improvements made to open line facilities, since it includes extraneous items such as the cost amounting to Rs. 23½ crores of stores purchased and held in stock, the cost of rolling stock provided by Government for non-State lines and new State lines (column 10 of appendix 4 to the Railway Administration Report for 1921-22), etc. It is safe to estimate the total amount of these extraneous items at Rs. 50 crores. It amounts to this, therefore, that although Rs. 265 crores were available, all that was spent on open line improvement was only Rs. 150 crores, while no less than Rs. 115 crores were spent for purposes not only unconnected with but detrimental to open lines representing the measure of the infraction by Government of the policy once decided upon by themselves. Railroad extension has always exercised an almost irresistible fascination on our rulers. It is only natural that they should have had the support of the European commercial and monied classes in the policy of building more railways and yet more railways. But recently they have discovered another supporter in that "patriotic Indian who is anxious to see the advantages of railway communication extended to all parts of the country." (Paragraph 84 of the Railway Administration Report for 1921-22.) We cannot conceive of any *patriotic* Indian, however, who will advocate persistence in adding new lines of railway and multiplying and further accentuating the inconveniences and discomforts his countrymen suffer pending the arrival of that happy but indefinite moment when our existing railways will have come up to a reasonable standard of convenience and comfort.

The sixth ground is that it is inadvisable from the public point of view for the Government to commit themselves to a policy of further railroad extensions in present circumstances and impose it on the new machinery, viz., Railway Commission to be created. The old machinery, viz., Railway Board, has after a period of 18 years, been found to be inefficient. The result of the enquiry made by the Indian Retrenchment Committee has shown that under the traditions set up by the machinery now to be overhauled the existing scale of working expenses is considerably in excess of what is essential for the safe and efficient working of the lines; permanent way is being renewed 15 to 2 0 years before its time more expensive engines are being ordered out in increasing numbers, in the face of a large surplusage already on the lines, to replace existing ones quite capable of giving further service; unnecessary and ever increasing additions are being made to the stock of wagons, while the provision of sufficient coaching stock is being neglected; losses by way of compensation for goods lost or damaged are increasing unchecked; huge stocks of stores are accumulating in the warehouses, involving expenditure on the establishments engaged in maintaining them, the buildings for their accommodation and the inevitable loss from depreciation. We shall not add to the list by reference to the report of the Acworth Committee. The legacy which the new machinery will be called upon to take over is heavy enough in all conscience to tax and absorb for a long time to come all the energies of the most efficient machinery that can be devised. The new machinery is still to come into existence. No one can say how it is going to work.

It may prove a success or it may not. Meanwhile public confidence has been rudely shaken and will have to be restored ; and this will depend on how far the new organisation will succeed in solving the immediately pressing and difficult problem of reconciling the needs of the mechanical rehabilitation and improvement of the open railways with the needs of their economic rehabilitation. The time for embarking on a policy of new lines, however promising on paper or otherwise, and deliberately adding to the existing property and business which the State already finds it difficult to manage efficiently and economically, is clearly not yet. (August 30-1923).

STOCKS OF RAILWAYS STORE.

IN para. 21 of its report, dated the 19th July 1920, the Stores Purchase Committee said :

> "In view...of the very large sums at present laying idle in stock depots, especially in those of railways, we consider it well to draw attention to the desirability of instituting searching periodical inspections of all such depots, to ensure a full enquiry into the details of the stocks held, how they compare with issues, and the periods for which the different classes of articles are held in stock before issue, with the view of ascertaining whether, and if so in what directions stock balances can be reduced and really surplus stock got rid of."

At the end of the year 1917-18, the value of stores, etc., not finally charged off in the accounts, stood at the high figure of Rs. 11,70,46,000; by the end of 1918-19, it rose to Rs. 13,89,68,000; an increase of Rs. 2,19,22,000; by the end of 1919-20 it mounted up to Rs. 21,69,02,000; an increase over 1917-18 of Rs. 9,98,56,000; the end of 1920-21 found the balance at the still higher figure of Rs. 26,17,72,000; an increase over 1917-18 of Rs. 14,47,26,000; while on the 31st March 1922 it rose up to the unprecedentedly large figure of Rs. 30,41,90,000 against Rs. 11,70,46,000 on the 31st March 1918. (Col. 13 of Appendix 4 to the Railway Administration Report for 1921-22.) In four years the stocks of railway stores have been more than doubled in spite of the fact that the Rs. 12 crores of stores in 1917-18 was itself an undesirably large balance to hold. No notice was apparently taken of the recommendation of the Stores Purchase Committee, or some mention of it would have been made in the Railway Administration Reports for 1920-21 and 1921-22. But instead the public is informed of the grand feats performed by the Indian Railways in having purchased materials totalling in value the "enormous" figure of Rs. 30 ¼ crores in 1920-21 and the "record" figure of Rs. 38-61 crores in 1921-22.

The Indian Retrenchment Committee of 1922-23 has, therefore, done a distinct public service in inviting pointed attention to the huge stocks of stores maintained by railways, since none of the accounts and statistics published by Government give any information on this point to the public, although it is the public who, in the long run, have to pay the piper for extravagance in this direction. There was

a time when Government did publish a great deal of information on this point through their Railway Administration Reports; but latterly the information has ceased to figure in these publications, presumably because it was held that it was not of much public interest. In view, however, of the greater interest taken by the public in railway matters it is highly desirable that the information should be re-introduced in these reports. In paragraph 32 at page 78 of its report, the Committee says:

> "We are informed that the total amount of capital locked up in suspense account at the end of 1921-22 amounted to over Rs. 34 crores, and that, for some railways, the figures shown in the foregoing table represent the total value of certain specified stores and not the total value of all stores held. It is stated that the book value of many items is considerably above their present market price, in some cases by as much as 50 per cent.
>
> We understand that the stocks of stores held on March 31st, 1922 were swollen by large arrivals of indents in the closing months of 1921-22, too late for issue before the end of the financial year and also by the strike on the East Indian Railway, wich resulted in delay in the carrying out of the works. We consider, however, that allowing for this, the stocks of stores held are on an extravagant scale and we recommend that steps be taken by a careful scrutiny of indents to effect an early and very substantial reduction."

Item 23 at page 4087 of the Legislative Assembly Debates, Vol. III, states that "The figure of Rs. 34 crores is not correct. It should be Rs. 23½ crores." We shall not attempt a reconciliation between the figures of Rs. 30 crores, Rs. 34 crores and Rs. 23 ½ crores, because in railway accounts as they stand at present reconciliation would be a hopeless task. The broad fact which stands out and has to be

remembered is that the stocks of stores at present maintained are on an extravagant scale. It is not contended by Government that even the lowest figure of Rs. 23½ crores is not extravagant or that it does not contain the element of understatement pointed out by the Committee. There is also another element of understatement besides that referred to by the Committee. It wlll be noticed from paragraph 6516 of Vol. III of the report of the Indian Railway Committee of 1920-21 that interest charges on the amount at the debit of the Stores Suspense account are all borne by revenue. It is clear that the balance of Rs. 23½ crores referred to above does not include interest charges, which may amount to anything above Rs. 1 crore per annum. There are several other directions in which the Stores Account, like other railways accounts, fall short of a real commercial account, and we have no doubt that when the Financial Commissioner now attached to the Railway Board comes to examine the position, the account will be put on a proper footing. But no amount of perfection in book-keeping will do away with the large accumulations of stores. Item 23 at page 4087 of the Legislative Assembly Debates, Vol. III, gives an indication of the steps which are being taken with a view to reducing the enormous stores balances. This reduction must be a slow process and must take a few years to materialize; and now that pointed attention has been attracted to it, we have no doubt that the reduction will take place. But what must afterwards be guarded against is an insidious recrudescence of these balances, once they have been brought down to the normal. There are obviously severe limitations on the capacity of a

distant central body like the Railway Board or the Railway Commission to keep an effective check from day to day on any tendency towards a relapse.

Amongst the conditions favourable to the growth and continued existence of bloated stores balance few are so potent for mischief and likely to elude notice as the machinery for Stores control as it exists on railways, the procedure it has to adopt and the divided responsibility inseparable therefrom. All work connected with the purchase, custody and issue of stores and the maintenance of stores ledgers for all the various departments of a railway is concentrated in a separate department called the Stores department. This department is only one of the several which together constitute the organization termed 'railway management' and no department is more intimately connected with every one of its sister departments than the Stores department. The organization of the East Indian railway, for instance, is divided into no less than 11 departments, viz., (1) the Agency, (2) the Engineering (3) the Locomotive, (4) the Electrical, (5) the Carriage and Wagon, (6) the Colliery, (7) the Traffic, (8) the Audit and Accounts, (9) the Stores, (10) the Medical, and (11) the Printing. The Stores department is the agent for the purchase of stores for all these departments. Purchases are of two kinds, viz.,

I. Special purchases relating to stores required against definite works in progress or proposed to be undertaken in the immediate future. These stores remain in the custody of the Stores department for only a limited period.

II. Stock purchases relating to consumable stores and stores for repairs and petty renewals

usually required in the course of the working of a railway. It is these stores which have to remain in the custody of the Stores department for an indefinite period and form almost exclusively the stock in the hands of that department.

We are at present concerned with class II only. This class may be divided into two sub-classes, viz.,

(a) Stores obtained from England,

(b) Stores purchased in the country.

For stores under sub-class (a) heads of departments prepare annual forecasts of the requirements which specially concern their departments, allowing some margin as a factor of safety, to avoid running short before the next supply arrives. These are then sent on to the Stores department where a similar allowance is again made as a margin of safety. This procedure, assisted further by a change in plans or design or policy, naturally leads to stores becoming surplus. This process goes on from year to year and the lists of surplus stores become longer and longer with each succeeding year: (Cf. paras 6 and 7 at page 202 of Vol. II of the report of the Stores Purchase Committee of 1920.) Further, many consumers, particularly in the technical departments like the locomotive, have their own pet fancies as to what suits their work best and changes in the personnel of the consuming departments also act as a contributory cause in creating surplus or obsolete stores. What has been described here as happening with regard to imported stores also applies to stores falling under sub-class (b), i. e. stores available in the country, although only to a very limited extent.

The net result is that, as pointed out by Mr. D. L. McPherson in his evidence before the Stores Purchase Committee, " majority of the items in the surplus lists are of imported stores. " Articles purchased in the country also become surplus, but since they are available without the long notice required in the case of English stores, the items which go into the surplus lists are few in number and small in quantity and in aggregate money value. The largest portion of the amount of capital locked up in Stores Suspense Account is on account of stores obtained from England. It would be impossible to ascertain whether, and if so how far, the present dropsical stores balances have been assisted by the increasingly generous grants of recent years for railway capital expenditure, or by gratitude for the immense sacrifices made by British investors in subscribing to "the East India Loans", or by sympathy with the unemployed in England. Lists of surplus stores are exchanged between different railway administrations but have never fulfilled the purpose for which they are issued, although the ceremony of exchange is still performed with religious solemnity. In the end the stores have to be disposed for small or scrap value, involving large losses. With the present system in force it is impossible to create and maintain in the different consuming departments a real genuine interest in keeping stores balances down to the lowest possible limit or make them effectively responsible for inflated balance.

The Stores department is in charge of an officer who is given the high-sounding but hardly appropriate designation of Controller of Stores. A Controller cannot control unless his status, experience and

knowledge of the uses and suitability of the stores required by the various departments of a railway—particularly the technical departments—are such as will invest his judgment of the reasonableness or unreasonableness of the departmental demands or opinions with a weight and an authority which cannot be challenged. All these essentials are absent in the present organization. The status of the Controller of Stores is at best equal, if not inferior, to that of the heads of the other departments. His experience of the technical departments—for it is from these that the most expensive and heavy demands arise—is always inferior to that of the heads of the consuming technical departments, while his knowledge of the work of these departments is still more inferior. Nor can it be otherwise. It is a physical impossibility for one man to combine in himself the maximum qualifications of the heads of all the departments. Until more recent times a Controller with experience of even one of the several branches of engineering was a *rara avis*. Even now it is not always the case that the Controller has technical experience. There are no doubt some railway administrations where the Controller has graduated in one or other of the different branches of Engineering. But this is obviously not enough. The consequence is that the so-called Controller is for all practical purposes a mere shop-keeper. He can of course enforce his decisions with the borrowed authority of the Agent of the railway, but in none of the essentials except that of status, is this latter officer either any better circumstanced than the Controller himself. The only solution of the problem lies in decentralizing the work of this department and transferring the different por-

tions thereof to the consuming departments and making those departments responsible in all matters in which the Stores department is now held to be responsible, although it does not, because it cannot, possess the means of carrying out those responsibilities efficiently. Such a decentralization would pay for itself in the way of economy and increased efficiency, and more than pay for itself when the grouping of railways recommended by the Indian Retrenchment Committee takes places. (Oct. 25, 1923.)

IMPROVEMENT *vs.* REHABILITATION OF RAILWAYS.

WHEN the Indian Railway Committee of 1920-21 wrote its report, the position as it appeared to the Committee was that the railways were still directly remunerative. Not a doubt seems to have crossed its mind that the era of railway deficits was so near at hand, for in paragraphs 50 and 63 the report says :—

> A Government as a Government always has before it many objects for which it would gladly spend money were the money available. No one will question that the expenditure of large sums on, for instance, sanitation and education would be greatly to the benefit of the people of India. Neither of these services are, however, directly remunerative. Their cost can only be met by taxation. The quetion for the Government is whether, especially having regard to the attitude of the taxpayer, the object is so essential and so urgent as to justify the imposition of new taxation. The rail-

ways are in an entirely different position. It is no question of new taxation. It is merely a question of allowing the railway undertaking to finance its own requirements out of its own resources and at its own time. There has been no need for many years past to call upon the taxpayer to come to its assistance. On the contrary, year after year the railway revenues have been applied for his relief. Since the beginning of the present century the Finance Member has always budgeted for a considerable contribution from the railway net revenues towards the general expenses of government. Of recent years that contribution has been quite large. In his budget speech of March last the Finance Member complained that for the current year (1920-21) the contribution would be only Rs. 4 crores, which he said would not be sufficient.

A reference to the curve of net revenue given in the Administration Report on Railways in India for (1919-20) will show that, though in the earlier years the interest on railway capital had to be met partly out of taxation, for the last 45 years the net earnings of the capital invested in Indian Railways had never sunk below 4 per cent. For the last 20 years it has only three times sunk below 5 per cent., and this result was attained though a substantial sum had been charged against revenue for repayment of capital and in spite of the fact that a not inconsiderable part of the total mileage had been built not on commercial grounds but for strategic purposes.

That the railways were being managed on truly commercial or economic principles was tacitly assumed and taken as proven without enquiry or proof other than that they had been directly remunerative for some decades past; in fact the Committee's recommendation regarding complete fiscal autonomy for railways would have been impossible without this tacit assumption. Once this unduly optimistic assumption is made, it is perfectly intelligible that in so far as the working of the railways was concerned the Committee should have laid the greatest emphasis on the mechanical deficiencies in equipment

of the railways and the necessity for "putting the existing railway system into such a condition as to be able to handle with reasonable efficiency and despatch not the traffic of the future, but the traffic which at present is clamouring for accommodation that the railways cannot give." It is true that in paragraph 244 of its report the Committee says that "even if the new money spent in equipping the railways with facilities for dealing with the traffic actually in sight did not pay for itself directly, we should think it incumbent upon the Government to spend it, and spend it forthwith." But it is clear that, in the opinion of the Committee, the contingency referred to was not a probability but a mere possibility. In any case it is impossible to suppose, wihout doing injustice to the Committee, that it advocated the mechanical rehabilitation and improvement proceeding at full speed in all directions even at the risk of the consequent heavy expenditure involving the Government in financial embarrassment or leading to increased taxation.

In the earlier portion of the article which appeared in the issue of September 20 it was shewn how the uncontrolled rise in working expenses had been actually eating into the real profits of railways, until the years 1921-22 and 1922-23 in succession brought in actual heavy deficits in spite of the substantial enhancement in rates and fares made in the latter year. The position then as it faced the Inchcape Committee was that the railways in which the State is financially interested had thus collectively come to a stage of unremunerativeness involving the State in serious financial difficulties. The programme of an all-round mechanical rehabilitation and improve-

ment of the existing railways so as to make them fit not only to carry the traffic actually in sight as recommended by the Acworth Committee, but also to make them fit to carry the traffic of an undisclosed or unknown future already under execution spelt heavy demands on revenue funds for a number of years to come. Any further general increase in rates and fares was calculated to produce an effect detrimental to the trade of the country and was therefore not practicable. Nor was the country in a position to subsidise the railways.

Mechanical rehabilitation and improvement of the existing railways involved heavy expenditure *in the present* for the sake of some unknown or undefined ultimate economy, while immediate economic rehabilitation could only be brought about by curtailing present expenditure, although with the sure prospect of an even greater outlay later on. There is evidence in the report that the Committee knew of the existence of the report of the Indian Railway Committee of 1920-21 and also of its contents; in fact, Sir R. N. Mookerjee and the Hon. Sir Purshotamdas Thakurdas were members common to both the Committees. It is therefore inconceivable that the Indian Retrenchment Committee could not have appreciated the value and the force of the Acworth Committee's recommendation in regard to the importance of the mechanical rehabilitation and improvement of the railways being carried out as early as possible. As already stated, when the Acworth Committee made its report the railways were still prosperous and the need for their economic rehabilitation had not arisen. The position had completely changed by the time the Inchcape Com-

mittee met and the economic rehabilitation of the railways had established itself as the greatest need of the present. This being so, the question before the Committee was whether the 'axe' should descend with equal force on all the railways without discrimination, or whether lightly on those that were remunerative and comparatively heavily on those that were bringing in losses to the State; in other words, the question was whether ultimate economy should, in view of the straitened financial position of the State, be sacrificed to immediate economy in the case of all railways or only in the case of the losing ones. The Committee had no difficulty in deciding that the latter course was the wisest. The analysis made by the Committee in paragraph 8 of the financial results of the working of the ten selected railway *systems* shews that at least half of them are still remunerative and half have become losing concerns. The separation made out by the Committee in this paragraph cannot be regarded as otherwise than very rough and tentative. Obviously it can be meant to be only suggestive or indicative of the lines along which retrenchment must be made. It is up to the railway administrators in charge of the different systems, who are there for the purpose, to follow up the lines, carry the process as far down as possible, separate further the losing from the remunerative branches or sections and see what can be done to curtail expenditure so as to make the system remunerative with due regard to the co-ordination of the requirements of the different parts of that system. It is up to the Railway Board which is the central administrative body in charge of all the systems to follow the same lines with regard to the different systems as the local ad-

ministrators are expected to do with regard to the different parts of their own respective systems. The first step towards economic rehabilitation is to see that the ratio of gross revenue expenditure to gross earnings does not increase further, that is, that no further expenditure should be incurred which is not calculated to increase the net earnings sufficiently to cover the additional interest involved or necessary to maintain existing traffic; the second step is to see that the existing ratio is gradually lowered until it comes down to the point of yielding a prescribed minimum return on the capital invested, that is, that the scale of expenditure should, consistently of course with safe and reasonably efficient working, be reduced so as to make the remunerative lines more and more remunerative and the losing ones less and less unremunerative until they are converted into remunerative lines.

Working expenses consist of two main items: (1) ordinary expenditure and (2) "programme" expenditure. Ordinary expenditure includes salariest coal and other consuma ble stores, day-to-day repair and maintenance and is to a large extent subject to fluctuation from year to year in sympathy with the volume of traffic moved. A railway being designed and built to meet a certain specified volume of traffic there must be a certain minimum of ordinary expenditure below which it cannot be curtailed since, whatever the amount of traffic, railways have to be maintained as going concerns, in view of the immobilization of a large portion of the capital sunk in them; they have to be kept in a state of repair; a tolerably efficient and regular train service and staff must be maintained. The process of retrenchment

can, therefore, be applied only to the difference, if any, between this minimum and the existing ordinary expenditure. It is on the basis of this difference that the attempt at economic rehabilitation must proceed in so far as ordinary expenditure is concerned and without reference to the remunerative or unremunerative character of any particular railway.

"Programme" expenditure represents special expenditure on renewals of bridges, ballast, rails, sleepers, buildings, stationary engines and machinery, locomotive engines, coaching goods and other vehicles, etc., etc., with those of the same or an improved or stronger type. This expenditure is not subject to or dependent on the variation from year to year in proportion to the traffic carried. Portions of railway property which have become incapable of rendering further service must be renewed in spite of the smallness of traffic; occasionally items of railway property are renewed with others of improved design although the former are still physically capable of further service, but this is done in the interest of economic working or improved service and has no relation to the volume of traffic. It is, however, neither unusual nor infrequent for items to be renewed before they are due to be so renewed in the two contingencies mentioned by us, so as to fit the railways to carry the traffic which may offer in 15, 20 or even 30 years; this is probably being done in India under the quinquennial programme of Rs. 150 crores sanctioned by the Legislative Assembly, "in a fit of generosity," to quote the words of the Hon'ble Mr. V. G. Kale in his budget speech of March 7. In times of financial difficulty such as the present, the renewal of worn out items can be postponed where it

is possible to render them useful for a substantially longer period by repairs or strengthening; renewal of items of out-of-date types can be postponed unconditionally; while renewal of items preparatory to fit the railways for improved and possibly economical movement of the traffic offering in 15, 20 or 30 years' time can also be postponed to a more favourable date. It is in respect of these renewals that it is possible and even necessary to discriminate between remunerative and unremunerative railways. The Inchcape Committee has recommended that such a discrimination should be made. What it has urged is that expenditure on railways which may be found to be unremunerative should be restricted to the requirements of the immediate future. It is of course not obligatory to spend to the maximum on remunerative railways as conveniently assumed by the Hon. Mr. Innes in his speech on March 13 when he attempted to belittle the recommendation of the Inchcape Committee regarding the necessity for discriminating between remunerative and unremunerative railways. (November 15, 1923.)

ADMINISTRATION REPORT ON INDIAN RAILWAYS IN 1921-22.

1.—THE IMPROVED FORM.

The publication of the report of the Indian Railway Committee of 1920-21, the division in that Committee on the most important question of the fututre management of Indian railways with the Knights of the Indian Empire opposing State managemenet, the prospect of recurring deficits in railway working, the unbusinesslike methods of the present railway management—these are some of the factors that have served to stimulate public interest in railway affairs to an extent not previously equalled. This interest is reflected in the fuller—and, on the whole wise and useful—exercise by the legislators of the right of interpellation and of moving resolutions; in the active propaganda in the press and on the platform in favour of or against company management; in the nervous anxiety displayed by railway administrations to advertise their efforts in bringing their railways up to a proper standard of public usefulness and comfort. It was, therefore, impossible that the Government alone should be left unaffected by the contagion of publicity which they found all around them in this matter. The improved form in which the annual report on the administration of Indian railways has been appearing for the past two years is directly traceable to these forces. The report for 1920-21 was itself a marked improvement on many of its predecessors which were all cast to suit some skeleton form

with only the names, events and figures altered where necessary. The report for 1921–22, now before us, not only sustains this improvement, but goes further. For instance, the Government of India have now accorded, in due recognition of the fact that proper finance is the foundation of a commercial undertaking, the chapter on Railway Finance the premier place instead of the seventh place it occupied last year; the chapter on Railway Earnings rightly comes second instead of sixth : the chapter on Working Expenses and that on Railway Staff have each advanced a step higher; the chapter on Railway Materials which last year was given all but the last place occupies a much more important position, coming fifth in view of the legitimate demand of India to be freed from dependence on foreign countries for railway supplies; while the matters in which the customers of the railways, as apart from the country as a whole, are directly interested are grouped in three consecutive chapters under the headings "Rolling Stock". "Rehabilitation and Development" and "Traffic Problems and Remedies". The only comment we have for the present to make is that at least a small chapter might be assigned to the item "coal," which in point of cost exceeds any other single item of consumable stores used in railway working, and to the transactions of State collieries which are difficult to understand from the bald figures given in appendix 15. It is also very desirable that the public should be furnished with fuller information in connection with the transactions of the Fine Funds than can be gleaned from appendix 25 to the report, if only that the public may be assured that the bulk of the fines and forfeitures of bonuses is not levied from Indians and spent on non-Indian institutions.

IMPORTANCE OF STATISTICS.

The improvement noticed above is, however, confined to part I of the report and can hardly be said to touch part II which forms a compilation of the statistical results of the individual railways or railway systems. Statistics have never been a strong point with the principals of our railway administration. It has been a plaything in their hands for the last fifteen years or so, the pastime engaged in being for the most part confined to the deletion of useful but inconvenient statistics and that too without a word of explanation. At the moment of writing we have particularly in mind the statistics which used to be published right up to the end of the year 1919-20 regarding the rate of profit earned or loss sustained on the different classes of passengers and the ratio of accommodation provided for the different classes of passengers to the number actually carried. The Railway Board, which it is possible may now emerge as the Railway Commission, was called into existence to manage our railways on commercial lines. The fact that this body, hitherto the sole expert adviser to the Government of India, has failed to appreciate the proper value of statistics as a necessary aid to efficient management is clearly brought out in paragraphs 129-134 of the report of the Indian Railway Committee. The report (dated 30th December 1903) on the Organisation and Working of Railways in America by the late Mr. Neville Priestley devotes a whole chapter to "Statistics" which is at once both interesting and instructive. The present form of statistics was introduced as long ago as 1880, a period in railway history which, as the Indian Railway Committee said,

may be described as mediæval. That this mediæval form should have been allowed to continue throughout the past eighteen years shows that the Railway Board could not have paid much attention to the chapter on "Statistics" in Mr. Priestley's report; otherwise the question of the general overhaul of statistics would certainly have been taken up by them within a year or two of their assumption of office instead of eight years later. Likewise there would have been no necessity to defer its further consideration owing to the outbreak of the war until no less than four years after the cessation of hostilities. In any case it is satisfactory to learn that "an experienced officer has now been placed on special duty and has collected information in regard to up-to-date procedure in England and America", and that "it is now proposed to employ him in association with an officer of the Audit Department to make a complete overhaul of the existing methods and policy in this matter." It is impossible that the present system—so called by courtesy—of maintaining the railway statistics should not vitiate many of the conclusions based thereon. Thus, to give only one example from each of the several chapters of the report now under review, the deficitof Rs. 9,27,30,501 made out in chapter I, has been forced to exaggerated dimensions in so far as the payments made on account of annuities and sinking funds in connection with the purchase of the old guaranteed railways are taken as *revenue* expenditure, although these are all contributions towards the extinction of *capital* liabilities; the comparison in chapter II of the total earnings of railways is vitiated by the inclusion of what, from the public point of view, may for the

most part be called paper earnings, such as those on account of the carriage of military troops and stores of railway coal and revenue stores, etc. etc.; the omission to add to working expenses a well-ascertained and uniform allowance from year to year for depreciation gives an erroneous idea of the ratios of expenses to earnings as exhibited in chapter III whether relatively or absolutely; the comparison in chapter V of the expenditure on fuel is vitiated owing to the fact that since April 1920 railways are charged lower rates for the carriage of coal than in the earlier periods and that in some years the freight is added on to the cost of coal and in other years not so added; the figures in chapter VI of the additions to the rolling stock of open lines are likely to be overstated if only for the reason that they include the provision for this kind of equipment on account of new budget-lines, that is, those under construction.

We have dilated in our observations on part II of the Railway Administration Report, not only because of the intrinsic importance of the subject but also because a right appreciation of the potentialities of reliable statistics for economy and efficient management of large railway undertakings, is calculated to rob the problem of the regrouping of railways in India of some of its terrors and give courage and confidence to the authorities who are now inclined to approach it with a cautiousness bordering on timidity. In this connection we cannot resist the temptation to give a few excerpts from Mr. Priestley's report:

"One of the subjects which had exercised my mind a good deal before I went to America was how the large undertakings now operated under one organisation were managed and controlled, since personal supervision by the higher officers

was no longer practicable. I asked the question of several Presidents, Vice-Presidents, Heads of Departments and District Officers whom I met. Without exception they gave me the answer that the control was exercised through statistics. Equally without exception, they said they could not possibly conduct their business efficiently without statistics; that without them they were working in the dark; and that they could not understand how any railroad could be efficiently and economically operated without statistics".

"The President of the railway which has made the most scientific study of the subject, told me that at one time his railway kept only the most meagre statistics. . . . He felt this was not right, and that if he was to operate his railway economically and with profit, he must know exactly where the money went, and what income was being received in return for a particular expenditure. He accordingly proceeded to devise some form of statistics, which would give him the necessary information, and after many trials and errors, he arrived at his present system. It is elaborate,...and involves a good deal of expenditure when the amount is gauged merely by the sum spent; but I was assured that both he and his officers were quite satisfied that the money was more than well spent, and that by means of these statistics they had been enabled to introduce reforms and economies, the necessity for which would otherwise never have been known, and that generally the outlay which they incurred in the compilation of the statistics represented only a very small percentage of the saving effected by their aid".

"It is by means of these statistics that the American Railways have been able to reduce expenses generally and to increase the load in their vehicles and in their trains and consequently to reduce the cost per ten miles, and it is to no small extent because of these statistics, that those railways which have adopted the most elaborate statistics, and learnt the lessons which they teach, are in as good a financial position at they are to-day." (February 8, 1922.)

II.

THE IMPROVED SUBSTANCE.

Dealing with the substance, as distinguished from the form of the report, the most noticeable feature of this year's issue is its informative character. It is responsive to public criticism concerning railway economics and management offered in the Central Legislature, in the press or on the platform. This policy of informing public opinion and being in turn informed, by that opinion cannot but result in ever more informed and reasoned criticism and growing appreciation of the viewpoint of each other and in lessening reliance on the credulity of the public in the explanations offered of the results of a year's working. Although the report under review is, generally speaking, a decided improvement on its predecessors in point both of quality and quantity of information, does not give adequate information on certain matters, while on certain others it is wholly silent. The Government of every country stand to the public in the relation of trustees :

(a) of the life, limb and property of railway customers, railway employees and the general public: and

(b) of the rights of the travelling and the trading public using the railways against exploitation.

As regards (a), the protection afforded from injury to life and limb is measured by the number and circumstances of railway accidents. There is

one whole chapter devoted to this subject, but the information given in it is both meagre and confusing. The total number of accidents was 6190 during 1921-22, 6055 during 1920–21 and 6279 during 1919–20. After referring to the "very slight" increase during 1921–22 over the figure of 1920-21, the report says: "These fatalities may seem large, but it must be borne in mind that the number of passengers carried was 561,329,000." This explanation would have had some chance with the credulous if they were at the same time told to forget that the total fatalities decreased from 6279 in 1919-20 to 6055 in 1920-21 in spite of the increase in the number of passengers carried from 520,027,400 to 559,246,100.

The standard of protection afforded in respect of property has never been high or even reasonable in achievement. The amount paid as compensation for goods lost or damaged during the long term of 18 years of so-called business management of State railways has risen from a few lakhs to over a crore. During one quinquennium alone, viz. that ending 31st March 1921, it rose from Rs. 18 lakhs to Rs. 112 lakhs, equal to a rise of no less than 522%, although the increase in goods earnings was only 16%. The whole subject, however, is dismissed in a paragraph of 15 lines at the end of chapter VIII and the hops is expressed that "the short explanation now afforded may serve in some measure to assure the public that every effort is being made so far as means to do so admit, to get rid of legitimate cause for complaint in respect of transport arrangements." With the spirit of the reform which this department of the State has caught, it is not unreasonable to expect that the next report will give us some statistics

about this form of waste and extravagance and will also be able to shew some substantial improvement In this connection we are tempted to make one observation and that is that the problem will never be solved by mere pious instructions for greater co-operation between the traffic officers and the watch and ward officers. The root of the mischief lies in divided responsibility and it is this that must be removed.

As regards (b) the vices to which a railway monopoly, like any other monopoly, is liable are extortionate charges, unjust discriminations in rates and fares and failure or delay to provide reasonable facilities. Taking the case of third class passengers, for instance, the fares charged for this class in India have always been regarded as extortionate in so far as they are in excess of the capacity of the customers concerned. This was clearly brought out by the late Mr. Neville Priestley in his report of 1903 on the Organisation and Working of Railways in America and by the late Sir Thomas Robertson in his report of the same year on the Administration and Working of Indian Railways. These fares have since been increased at least twice with the inevitable result that they have restrained the normal development of railway custom. This is fully borne out by the fall both in the number of passengers carried and in the earnings derived from passenger traffic as compared with the budget anticipations for the current year.

As regads unjust discriminations, Government's own statistics prove that the rates charged to first class passengers not only do not cover the working cost but fall considerably short of it; while those charged to third class passengers are pitched high

enough to wipe out the loss on the first class traffic and yet leave a large balance as profit.

As regards failure or delay to provide reasonable facilities, we cannot do better than give below a few extracts from the report of the Indian Railway Committee of 1920-21:—

> "We have received many complaints regarding the treatment of third class passengers. Their grievances are of long standing . . . Stress was laid upon them by Sir Thomas Robertson in his report of 1903".

> "In India, with its vast population . . . flocking in enormous numbers to melas (fairs or fêtes) or on pilgrimages to holy places, occasional overcrowding is inevitable. To construct and equip the railways so that on rare occasions they should be able to accommodate without inconvenience traffic out of all proportion to the normal is evidently impossible...But when it comes to overcrowding as a constant everyday affair, carried to the length that Membsrs of the Committee have seen with their own eyes—passengers by regular trains perched in the luggage racks and in suburban services hanging on outside or squatting on the steps of the coaches, it is another matter."

It will be seen from what we have said above that there is strong *prima facie* evidence to show that the payments demanded from a section of the public in return for the services given by railways are both extortionate and unfair in their incidence; and yet not a word is said about these matters in the report. This is a deficiency which, we hope, will be made up in the next report.

A considerable wealth of information is given in chapters VI, VII and VIII, describing what has been done, what is being done, what it is proposed to accomplish by the end of 1926-27 and what are

the difficulties in the way of provision of reasonable traffic facilities. It is impossible in a review of the report to notice the several points arising out of the arguments advanced. We shall, therefore, confine our attention to one point only, viz. the provision of rolling stock. The report makes a great point of the fact that it is useless to equip railways with a liberal supply of stock unless improvements of existing lines are simultaneously carried out, providing adequate facilities for the movement of additional stock. We have been hearing this argument for a number of years past without being given the faintest idea as to the point in the unending futurity where this argument will cease to be operative and where railways will begin to provide, as advised by Sir Thomas Robertson, facilities slightly in excess of the requirements of the day, so that when the traffic comes the railways may be ready to carry it and help on its development. Government have never yet placed before the public any programme by pursuing which they hope to be able to complete, within some reasonable amount of time and money, the provision of adequate facilities for the movement of the necessary rolling stock. The enormous leeway to be made up may render it impossible to make such a forecast, but in that case the least that the public is entitled to know from year to year is what was the capacity at the beginning of the year, what has been added, what is proposed to be added during the ensuing year and what will remain to be added at the end of the ensuing year. Nothing short of this, or some such information will inspire confidence in the Government moving in the right direction. According to paragraph 92

of Sir Thomas Robertson's report of 1903, the necessity for concentrating all efforts and money on the provision of adequate facilities on open lines was accepted as long ago as 1900; and yet we find that during the 65 years ended the 31st March 1922, no less than 21 crores out of the total capital expenditure of Rs. 265 crores was spent on new lines which only served to bring in additional traffic and hamper the already overloaded old lines. If improvements in existing lines are to be completed as rapidly as possible, there must be no such diversion of the available funds for works which do not add to the capacity of the existing lines.

Considerations of space preclude us from noticing other phases of the working of this big commercial department of the State as disclosed by the report; we cannot, however, conclude this review without observing that the report, considered from the point of view of its literary merit, does not come up to the standard which we are accustomed to expect from the other publications of the Government of India. (February 22, 1923.)

MANAGEMENT OF INDAIN RAILWAYS.

No railway question has been so exhaustively discussed both on the platform and in the Press during the last ten years or so—and never more than during the last 16 months—as the question of State *versus* company managment of Indian railways. The

fact which emerged most prominently as a result of this discussion was that the material available was wholly insufficient on which to base any definite conclusion as to the best form of management for Indian railways. The experience of other countries with regard to either form of management was itself conflicting. But even if it were not so conflicting, the form and composition of the Government in India and the general conditions which actually obtain in India or are likely to obtain for a long time, are so radically different that the experience of other countries was no sure guide to a definite conclusion on the general question. All that this experience would warrant us in concluding is that a reasonable period of cautious experiment must precede a final decision on the general question. The fact of the whole matter is that in the special circumstances of India there is no common ground for real comparisons, and from this point of view the only question to be decided was which form of management should be given a trial in India. It was, therefore, in the fitness of things that during the debate that took place in the Legislative Assembly on February 27 on the general question, immediately after Mr. Neogy had moved his amendment recommending direct State management for all railways in India, Dr. Gour asked the House to confine itself to the immediate question of what should be done in the case of the East Indian and the Great Indian Peninsula guaranteed railway companies, whose contracts are terminable in 1924 and 1925 respectively, and urged that the two railways should, on expiry of the contracts, be taken over for management by the State. The Hon'ble Mr. Innes expressed his willingness to accept the

recommendation with a qualification authorizing Government "to concert measures with the object of handing over one or the other of the two railways after such grouping as may be necessary, to an indigenous company calculated to give India the benefit of real company management." Dr. Gour had no difficulty in showing that this qualified acceptance amounted almost to entire negation of his proposals and in inducing the House to reject the rider by 56 to 42 votes. An analysis of the voting shows that excluding the Government *bloc*, the supporters of the rider were only 12 out of a total of 68 Indians while of course all the Europeans and Anglo-Indians voted solid in favour of Mr. Innes's rider.

Mr. Innes's rider having been lost, Dr. Gour's amendment was put and carried without being pressed to a division. Indians are weary of company management and the moment a renewal of this form of management is suggested, they naturally associate with it a renewal of the bitter experiences they have had. Company management in any shape or form is, and must for a long time to come be, unacceptable to them, even if as much as 90% of the directorate were to be Indians of real independent character. The Indian public is not likely to be placated by the mere top-gilding of an Indian directorate without the prospect of a sufficiency of the supply of Indian executive and administrative officers through whom to carry out its will. We congratulate the Assembly on its wise and fair decision to try State management. We have no doubt in our mind that State management will succeed in India at least as well as, if not actually better than, any company management that can be devised. If, however, the experiment does fail

even after a fair chance is given to it, the alternative experiment can begin at once, whereas if the experiment of company management is taken up first and found to be unsuccessful or undesirable, the alternative experiment will have to await the expiry of the company's lease covering a long term of years. Simultaneous experiments on two different lines with either system of management can have no value for purposes of comparison. For a proper comparison both the forms must be tried on the same railway one after another. We hope, although in view of the change which has come over the India Office it would be risky to do so, that Government will be equally wise and fair in their choice out of the two courses now left open to them, by acting up to the recommendation of the Assembly and refraining from overriding it partially or wholly.

The decision taken by the Assembly, if and when accepted by Government, will throw special responsibilities on that body. The company management such as we now have is practically State management in all but name. The disadvantages of both have had their full play in this hybrid system, and yet even under these uncongenial conditions the railways in India have, on the whole, proved a solvent concern. With the East Indian and the Great Indian Peninsula railways under direct State management the disadvantages of the existing pseudo-company management should automatically disappear and to that extent their solvency and remunerativeness should, so far from diminishing, actually improve. If, however, these two properties lapse under State management into administrative and economic inefficiency it will be due entirely to slackness, first on the part

of the executive, and secondly on the part of the Government and the Assembly. The machinery of control which was created by Government for running their railways on commercial lines became in course of time absorbed into that bureaucratic stronghold, viz., the Government of India. The Railway Board has become such an integral part of that elevated fraternity that when it is praised the Government of India take the praise to themselves and when it is attacked the Government of India feel that they are on their defence. There is not that detachment or independence of judgment which is necessary for efficient supervision. The Government of India will, therefore, have to cultivate the habit of this detachment and independence and any organisation that may be set up must take account of this vital necessity. We have already drawn attention to this defect once before, viz., in our article on "The Indian Railway Committee" reprinted at pages 37-45 of The Servants of India Society Pamphlet No. 8. The strong strictures passed by the Inchcape Committee on the unbusinesslike management of Indian railways are also traceable to this defect and we once again invite attention to it in view of the importance and necessity for giving State management a fair trial. The Assembly on its part must take greater interest in railway affairs, make a closer and deeper study of railway problems and apply a discriminating but sustained scrutiny and criticism to questions of railway administration and economics by a judicious exercise of the valuable rights, which the Reforms have conferred on them, of interpellation, of moving resolutions and of voting supplies. (March 15, 1923.)

Appendix.

STATE MANAGEMENT OF RAILWAYS.

We hear that a private meeting of members of both houses at Delhi was addressed on January 20th by Mr. Purshotamdas Thakurdas on the question of State Railways *vs.* Private Railways. This matter is of course looming very large indeed now with the imminent expiry of the E. I. R. and G. I. P. concessions, and one day this week has been set aside for a debate on the subject in the Legislative Assembly. Mr. Purshotamdas, who was a member of the famous Acworth Commission of 1920-21, which, if it came to curse State management of railways, left blessing it: Mr. Purshotamdas, we say, who has got all the facts of the case at his fingers' tips, would have had no difficulty in putting it to his friends conclusively and convincingly. In fact the present "system" prevailing in India is a real monstrosity: for it consists of Company management without Company ownership, and one really does not know what can be said for the continuation of a method, which puts a premium on inefficiency, chaos and favouritism and succeeds in nothing so much as in the safeguarding of this greatest of public utilities against all public criticism and demands.

In fact the defenders of the principle of private enterprise in Railways have no case whatsoever—the strength of their position consisting merely in a rooted prejudice, assiduously fostered by capitalist propaganda, that somehow or other it is to be taken as axiomatic that a private enterprise must be more

efficient and economic than one undertaken by the State. We truly believe that there is no more glaring example of the power of suggestion, than this *a priori* assumption, which runs contrary to all known facts. This paper has again and again drawn attention to the perfectly appalling inefficiency of private enterprise ; *e. g.* in the American petroleum industry which wastes 90°/° of the deposits and markets only 10%; or in the British coal industry, which the Sankey Report proved to be 40% inefficient. We have before us just now another example—viz., the bankruptcy statistics of the United Kindom for 1922, according to which 6,814 people were declared bankrupt there in that one year, with liabilities amounting to £9,795,811 and assets amounting to £3,643,458. Here is private enterprise, making an annual loss of six million sterling, running its business so inefficiently that 6,814 of its votaries have to shut up shop completely. Who hears of this economic waste which goes on year in, year out? And note that this waste does not include the waste and losses incurred in those businesses which can still meet their liabilities, which latter waste in the aggregate must come to something altogether fantastic. Yet, in the face of these elementtary facts, people still go on talking as if there was a magic about private concerns which inevitably spelt efficiency and economy.

The truth is, that it is not watefulness which is greater in public concerns than in private, but publicity. A public concern is open to the criticism of the Argus-eyed public; its failures are blazoned forth in the world's press ; and they are held up to opprobrium by the very people who in their private concerns bury their mistakes in the secrecy of their

board meetings and gloze over them by another dip into their shareholders' pockets. It is obvious that a public concern is not proof against mistakes nor inefficiency; but the very fact that all its mistakes are liable to very close and public scrutiny can but make for ever-increasing efficiency. The gathering-in of taxes was until modern times left to "private enterprise"; it was farmed out to private individuals who contracted to pay the State a fixed sum and in return had the right to squeeze the public to their heart's content. When the State took over this business out of the hands of "private enterprise," its machinery may have cost more than the old-time tax-farmer's; yet every year the methods of the Inland Revenue officials grew more efficient, until at the present time the gathering-in of, *e. g.*, the income-tax in the United Kingdom has been brought to such a pitch (under State management!) that not a gnat can escape through the microscopic meshes of that department. And the proof of the potentially greater efficiency of State management is not merely theoretical. The history of the German Railways is a practical proof and is so in the very branch of public utilities now discussed. Before the war, the Prussian State Railways were, without a shadow of doubt, the best managed and the most efficient; nowhere was travel more comfortable; nowhere was public convenience, from the first class to the fourth class passenger, better studied, nowhere did the public exchequer benefit more largely than from this great State-managed and State-owned railway business in pre-war Germany.

To-day the experience of State Railways in every country is being adduced, except in that of pre-war Prussia; and in adducing any such experience, it is

invariably and conveniently being forgotten that such experience is the experience of the war years or after the war years; and no attempt is made to guage what the losses incurred would have been under private control. In fact, it is just because private enterprise would not face the inevitable loss during those years that the State—very reluncantly at first—was being forced into taking over one private concern after another. The showing made during the war for State management of innumerable branches of commerce and industry in fact was so good, that as soon as the military danger was over, capitalism concentrated all its powers on smashing the organizations that had grown up. The British Auditor General's recent report on the result of these public enterprises is full proof that State management not only can be, but has been, far more efficient than private management. But who would read the day figures of an Auditor General's report? It is easier to read amusing little stories in the halfpenny press about flappers in Whitehall and about Mr. Churchill's fleet of motor cars; about the crass stupidity of the War Office and the payment o cheques with a few noughts added by mistake.

Yet the very basis of private enterprise has gone now-a-days. For in its heyday it was supposed to be so magically efficient, because there was competition. But to-day competition is dead! For to-day is the day of gigantic trusts and co mbines, which have seen the advantage of together fleecing the consumer, rather than cutting each other's throat. Only the other day Lord Furness at a meeting of the South Durham Steel and Iron Company said that the iron and steel trade in Great Britain was in somewhat

similar position to that of the U. S. shortly before the formation (in 1900) of the United States Steel Corporation and advocated in his own country the formation of an analogous trust. Again, since the 1st of January of this year all British railways have been trustified; four (non-competing!) groups taking the place of the former 120 unrelated companies, and 100 directors that of the former directorate of 1,300. All the world over the era of small individual competing units has gone and nothing is left but gigantic combines in the hands of a few magnates, who are as safely entrenched against competition as against interference on the part of consumers.

Is it really to be believed for one moment that these great concerns are carried on without a bureaucracy of their own or that these bureaucracies are more efficient than that of a State department? There is no sudden magic change in human nature, whether serving the Standard Oil Company or a Post and Telegraph department. The only difference, as far as the public in a country with Parliamentary Government is concerned, is that in the one case the public is powerless against the bureaucracy of the private trust and that in the other it can, through its representatives, force the bureaucracy of the State department to subserve the interests of the Commonwealth and stimulate it, by its sustained criticism into serving those interests ever more efficiently and economically. That is the real question; and we hope it will be insisted upon, and that the ridiculous bogey of State inefficiency will be brushed aside into that limbo which is its proper place. (February 8, 1923.)